(19)

No. 96-1470-CFX
Status: GRANTED

Title: Quality King Distributors, Inc., Petitioner
v.
L'Anza Research International, Inc.

Docketed:
March 17, 1997

Court: United States Court of Appeals for the Ninth Circuit

Counsel for petitioner: Rintala,William Thayer, Snyder,Allen R.

Counsel for respondent: Goettsch,Raymond H.

Ptn due Sunday, 3-16-97, rcd 3-17-97.

Entry	Date	Note	Proceedings and Orders
1	Mar 17 1997	G	Petition for writ of certiorari filed. (Response due April 30, 1997)
3	Apr 8 1997		Order extending time to file response to petition until April 30, 1997.
4	Apr 17 1997	G	Motion of Costco Companies, Inc., et al. for leave to file a brief as amici curiae filed.
5	Apr 30 1997	G	Motion of American Free Trade Association for leave to file a brief as amicus curiae filed.
6	Apr 30 1997		Brief of respondent L'Anza Research International, Inc. in opposition filed.
7	May 7 1997		Reply brief of petitioner Quality King Distributors, Inc. filed.
8	May 13 1997		DISTRIBUTED. May 29, 1997 (Page 1)
9	Jun 2 1997		Motion of Costco Companies, Inc., et al. for leave to file a brief as amici curiae GRANTED.
10	Jun 2 1997		Motion of American Free Trade Association for leave to file a brief as amicus curiae GRANTED.
11	Jun 2 1997		Petition GRANTED. SET FOR ARGUMENT December 8, 1997. **********
13	Jun 27 1997		Order extending time to file brief of petitioner on the merits until August 6, 1997.
14	Aug 6 1997		Joint appendix filed.
15	Aug 6 1997		Brief of petitioner Quality King Distributors, Inc. filed.
17	Aug 6 1997		Order extending time to file brief of respondent on the merits until September 22, 1997.
18	Aug 6 1997		Brief amici curiae of Costco Companies, Inc., et al. filed.
19	Aug 6 1997		Brief amicus curiae of American Free Trade Association filed.
20	Aug 6 1997		Brief amicus curiae of Jan-Bell Marketing, Inc. filed.
21	Sep 22 1997		Order further extending time to file brief of respondent on the merits until September 23, 1997.
22	Sep 22 1997		Brief amici curiae of National Consumers League, et al. filed.
23	Sep 22 1997		Brief amicus curiae of United States filed.
24	Sep 22 1997		LODGING consisting of five copies of nine documents submitted by the Solicitor General
25	Sep 22 1997		Brief amicus curiae of Swarovski America Limited filed.
26	Sep 22 1997		Brief amici curiae of Beauty and Barber Supply Institute,

2 PP

No. 96-1470-CFX

Entry	Date	Note	Proceedings and Orders
			Inc., et al. filed.
27	Sep 22 1997		Brief amici curiae of Recording Industry Association of America, et al. filed.
28	Sep 22 1997		Brief amicus curiae of American Intellectual Property Law Association filed.
29	Sep 23 1997		Brief of respondent L'Anza Research International, Inc. filed.
30	Oct 2 1997	G	Motion of the Acting Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument filed.
31	Oct 7 1997		Corrected LODGINGS, consisting of six copies of Documents 6 & 7 submitted by the Solicitor General
32	Oct 14 1997		Motion of the Acting Solicitor General for leave to participate in oral argument as amicus curiae and for divided argument GRANTED.
33	Oct 24 1997		CIRCULATED.
34	Oct 27 1997	X	Reply brief of petitioner Quality King Distributors, Inc. filed.
35	Nov 18 1997		Record filed.
		*	Record proceedings U.S. Court of Appeals for the 9th Circuit and U.S. District Court, Central California (1 box)
36	Dec 8 1997		ARGUED.

FILED

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OFFICE OF THE CLERK

No.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,
a New York corporation,
Petitioner,

vs.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Section 106(3) of the Copyright Act gives the copyright owner the exclusive right to distribute copies of a copyrighted work. That right is limited by the "first sale doctrine" in section 109(a) of the Act. Section 602(a) states that importation into the United States without the authority of the copyright owner of copies acquired abroad is an infringement of the exclusive right to distribute copies under section 106(3). The question presented is:

> May a U.S. copyright owner, who itself manufactures, first distributes and sells to a foreign purchaser a consumer product with a copyrighted label, sue a subsequent purchaser of that same product for infringement of its distribution rights under section 602(a) of the Copyright Act — or does the first-sale doctrine contained in section 109(a) bar the lawsuit?

PARTIES TO THE PROCEEDING

All parties in this Court appear in the caption of the case.

The parties have no parent companies or non-wholly owned subsidiaries that have issued shares to the public.

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PETITION FOR WRIT OF CERTIORARI

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit in *L'anza Research International, Inc. v. Quality King Distributors, Inc.*, is reported at 98 F.3d 1109 and is reprinted at Appendix A. The opinion of the district court is unreported and is reprinted at Appendix B.

JURISDICTION

This petition seeks review of a judgment of the United States Court of Appeals for the Ninth Circuit entered on October 22, 1996. Petitioner filed a timely petition for rehearing *en banc*, which was denied on December 16, 1996. This petition is filed within 90 days of the entry of such denial, pursuant to 28 U.S.C. §2101(c) and U.S. Supreme Court Rule 13.4. The jurisdiction of this Court to review the judgment of the court of appeals is invoked under 28 U.S.C. §1254(1).

STATUTORY PROVISIONS INVOLVED

The Copyright Act of 1976, 17 U.S.C. §106 provides:

> [T]he owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> . . . .
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of

> ownership, or by rental, lease or lending;
>
> . . . .

The Copyright Act of 1976, 17 U.S.C. §109(a) provides:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

The Copyright Act of 1976, 17 U.S.C. §602(a) provides:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

STATEMENT OF THE CASE

This is an action under the Copyright Act. Jurisdiction in the district court was conferred under 28 U.S.C. §1338(a). This case concerns the ability of a consumer product manufacturer to control the importation and resale of its product bearing a copyrighted label in the United States, after the manufacturer has itself sold these

products for export to a third party. Petitioner bought these products after they had been imported into the United States and was then sued by the copyright owner for copyright infringement under section 602(a) of the Copyright Act. The Third and Ninth Circuits are divided on whether a copyright owner may maintain an action under section 602(a) in these circumstances. The case potentially affects substantial international trade of the United States in products capable of bearing a copyrighted label. It also affects interstate commerce since conduct lawful in the Third Circuit subjects companies to liability for copyright infringement in the Ninth Circuit.

Material Facts

Respondent L'anza Research International, Inc. manufactures and distributes hair care products. Although these products themselves are not copyrightable, L'anza has copyrighted the labels appearing on its products. The validity of the copyright is not in dispute here.

The goods bearing the copyrighted labels that are at issue in this case were made in the United States. L'anza sold them to its United Kingdom distributor, Planetary Eco, at a discounted price of about 35-40 percent off its normal U.S. prices, purportedly because foreign purchasers would not benefit from L'anza's advertising and promotional activities. 98 F.3d at 1111 (App. at A2). Planetary Eco in turn sold them to a distributor called L. Intertrade. *Id.* Petitioner Quality King Distributors, Inc. ultimately purchased and resold the goods in the United States. *Id.* at 1111-12 (App. at A2-A3).

L'anza sued Quality King in the United States District Court for the Central District of California, alleging that

Quality King had violated section 602(a) of the Copyright Act by selling the imported goods without L'anza's authority. In its answer, Quality King raised the affirmative defense that L'anza's claim was precluded by the first sale doctrine of section 109(a). The district court rejected Quality King's defense and entered judgment for damages in an amount to which the parties had stipulated and enjoined Quality King from importing and selling the products.

Ninth Circuit Decision

On appeal, the Ninth Circuit noted that it had not previously decided the precise issue presented in this case. Although it had held in other cases that section 109(a) did not bar a section 602(a) claim where the first sale occurred abroad and involved a *foreign* manufactured product, it had previously "declined to pass upon the question of whether the first sale doctrine would bar an action involving the exportation and later importation of U.S. copyrighted goods originally manufactured in the United States." 98 F.3d at 1113 (App. at A6).

As it had in its earlier section 602 decisions, the Ninth Circuit noted that the relationship of section 602(a) (making unauthorized importation an infringement of the distribution right), section 106(3) (creating the distribution right), and section 109(a) (limiting the distribution right to the first sale) is not clear: "From the text of the 1976 Copyright Act, it is unclear whether § 602(a) creates a right that is distinct from § 106(3) and therefore is not limited by § 109(a), or alternatively, whether § 602(a) is merely an extension of § 106(3) and therefore *is* limited by § 109(a)." *Id.* (emphasis in original).

The Ninth Circuit resolved the purported ambiguity by ruling that section 602(a) created a right separate

from the distribution right of section 106(3) — or, more particularly, a right not limited by the first sale doctrine of section 109(a): "As a result, it would contradict the congressional intent underlying §§ 106(3), 109(a) and 602(a) if we were to hold that § 109(a) barred liability under § 602(a) in this case." *Id.* at 1117 (App. at A14).

The Ninth Circuit acknowledged that the Third Circuit had taken precisely the opposite view. In *Sebastian International Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3rd Cir. 1988),[1] the Third Circuit had held that section 602(a) was limited by the first sale doctrine in almost identical circumstances. As the Ninth Circuit succinctly put it, "[w]e decline to adopt the approach taken by the Third Circuit in *Sebastian*." 98 F.3d at 1114 (App. at A8).

In doing so, the Ninth Circuit relied on one of the alternative interpretations it had previously adopted in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, __ U.S. __, 115 S.Ct. 1315, 131 L.Ed.2d 197 (1995), and *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206, 112 S.Ct. 2997, 120 L.Ed.2d 873 (1992), observing "that § 602(a) would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation in this case." 98 F.3d at 1114 (App. at A9).

As an additional reason not to follow the holding of the Third Circuit in *Sebastian*, the Ninth Circuit here said that the first sale doctrine did not bar L'anza's claim because L'anza sold its products to Planetary Eco at a "reduced price" and therefore did not receive "full value" for the products. The Ninth Circuit also acknowl-

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[1] The opinion in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3rd Cir. 1988), is reprinted at Appendix D.

edged that its "full value" analysis conflicted with the Third Circuit's decision in *Sebastian*. Nevertheless, the Court expressly refused to follow *Sebastian* stating that:

> [T]he *Sebastian* court appears to have missed the crucial point that unauthorized imports cause copyright owners to lose control over domestic distribution, thus driving prices down for goods sold *through authorized channels in the U.S. market.* This is just the evil that Congress sought to prevent in adopting §602(a).

Id. at 1117 (App. at A15) (emphasis in original).

REASONS FOR GRANTING THE WRIT

I. A RIPE AND DIRECT CONFLICT EXISTS BETWEEN THE THIRD AND NINTH CIRCUITS CONCERNING THE RELATIONSHIP BETWEEN SECTIONS 106(3), 602(a) AND 109(a).

A. Nature Of The Conflict.

As the court below itself noted, its decision places the Ninth Circuit in a direct conflict with the Third Circuit, the only other circuit court that has considered the relationship between sections 109(a) and 602(a). In *Sebastian*, an American manufacturer itself made and sold consumer products (as here, hair care products) in bottles bearing labels with a copyrighted design. The manufacturer-copyright owner in *Sebastian* itself distributed the articles with the copyrighted labels. It sold and

exported them to a South African company, which shipped the products back to the United States for resale. The district court held the South African company liable under section 602(a), and the Third Circuit reversed. It held that, in these circumstances, "a first sale **by the copyright owner** extinguishes any right later to control importation of those copies." 847 F.2d at 1099 (App. at D12) (emphasis added). *Sebastian* thus holds that a first sale by the copyright owner itself of exported products establishes a defense under section 109(a) to an action under section 602(a).

The Ninth Circuit's decision in this case squarely holds the opposite. Although the copyright owner here, L'anza, itself made the goods and itself distributed the goods to a foreign purchaser via a first sale, the Ninth Circuit ruled that section 602(a) applied and that the first sale doctrine of section 109(a) did not. 98 F.3d at 1115, 1117 (App. at A9, A15). Directly acknowledging that its decision conflicted with the approach taken by the Third Circuit, the Ninth Circuit stated: "We decline to adopt the approach taken by the Third Circuit in *Sebastian*." *Id.* at 1114 (App. at A8).

B. Conflict In Rationales.

In reaching their opposing results, the two circuits necessarily (and explicitly) disagree about the meaning of the statutory relationship among sections 106(3), 602(a) and 109(a). The disagreement is about (1) the statutory language, and (2) Congress' intent.

1. Meaning of Statutory Language.

The Third Circuit in *Sebastian* considered the relationship between section 602(a) and sections 106(3) and

109(a). Like the Ninth Circuit in this case, it acknowledged that two constructions were possible:

> The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another distinct right — one that frees them from the first sale right of section 109(a), which otherwise limits section 106(3), and allows them to prevent the unauthorized importation of copyrighted copies. . . .
>
> The second interpretation reconciles sections 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves only as a specific example of those rights subject still to the first sale limitation. . . . Although the domestic copyright holder undoubtedly would prefer to block such importation, the statutory language does not expressly authorize such control.

847 F.2d at 1097 (App. at D8-D9).

The *Sebastian* court recognized that section 602(a), by its terms, makes certain importations not merely an infringement of the exclusive right to distribute copies, but infringement of the exclusive right to distribute copies "under section 106." *Id.* at 1099 (App. at D12-D13), quoting 17 U.S.C. §602(a). Moreover, as are all rights granted under section 106(3), the additional distribution right (involving importation) under section 602(a) is constrained by the first sale doctrine in section 109(a),

which applies "[n]otwithstanding the provisions of section 106(3)." 17 U.S.C. §109(a); *see also* 17 U.S.C. §106 (rights granted by §106 are "[s]ubject to sections 107 through 120"). The *Sebastian* court therefore adopted the second, less sweeping interpretation that reconciles the three sections: "a first sale *by the copyright owner* extinguishes any right later to control importation of those copies." 847 F.2d at 1099 (App. at D12) (emphasis added).

The Ninth Circuit in this case began with the same premise, that the statutory language permits two interpretations: "From the text of the 1976 Copyright Act, it is unclear whether § 602(a) creates a right that is distinct from § 106(3) and therefore is not limited by § 109(a), or alternatively, whether § 602(a) is merely an extension of § 106(3) and therefore *is* limited by § 109(a)." 98 F.3d at 1113 (App. at A6) (emphasis in original). However, unlike the Third Circuit, the Ninth Circuit chose the first, more sweeping construction: even where the copyright owner has made the first distribution and sale, "§ 602(a) would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation in this case." *Id.* at 1114 (App. at A9).

In essence, the Ninth Circuit, unlike the Third, reads the text of section 602(a) as creating an "importation right" superior even to the general right of distribution granted by section 106(3) of the Copyright Act — superior because it is not limited by the first sale doctrine of section 109(a). The Ninth Circuit has made a blanket and incorrect assumption — that unless section 602(a) is viewed as a "right" separate from the distribution right of section 106(3) and, more importantly, separate from section 109's first sale limitations on the distribution right, section 602(a) becomes "meaningless." 98 F.3d at 1114 (App. at A9).

The *Sebastian* court found meaning in the statutory language of section 602(a), which says that importation without the authority of the owner of copyright is an infringement of the exclusive right to distribute copies "under section 106." 17 U.S.C. §602(a). According to the Third Circuit, section 602(a) deals with importation of copies that have been made and distributed by someone other than the copyright owner — by licensees, for example. When it is the copyright owner itself that first distributes a copy, it has exercised its distribution right under section 106(3); in the Third Circuit's view, the copy distributed by the copyright owner then becomes subject to the first sale doctrine. 847 F.2d at 1098-99 (App. at D12).

To support its view, the Third Circuit noted the concern expressed in the legislative history of section 602 about imports of copies first distributed by foreign assignees and licensees of the U.S. copyright owner. "The hearings revealed the copyright owners' desire to prevent importation . . . of copies made by licensees in foreign countries." *Id.* at 1097 (App. at D8). After reviewing decisions that had applied section 602(a) to goods made under a license, the Third Circuit emphasized how the case before it differed from situations where goods were made abroad by an unrelated licensee: "Sebastian produced and sold the same copies which it now seeks to control." *Id.* at 1098 (App. at D11). The court noted that prior decisions finding liability under section 602(a) had each involved a first sale by someone other than the U.S. owner of copyright. *Id.*[2]

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[2] *See Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*, 569 F.Supp. 47 (E.D.Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3rd Cir. 1984) (first sale by unrelated Philippine licensee not a defense in action under §602(a)); *T.B. Harms Co. v. Jem Records, Inc.*, 655 F.Supp. 1575 (D.N.J. 1987) (continued)

The Ninth Circuit has in a prior decision addressed the distinction between foreign licensees and copyright owners in the making of a first sale.[3] Here, the Ninth Circuit simply noted that the *Sebastian* case had focused on whether the goods were "sold by the copyright owner" and rejected that distinction: "the *[Sebastian]* Court held that the first sale doctrine bars an action under §602(a) . . ., so long as the goods were manufactured in the United States *and sold by the copyright owner*. . . . We decline to adopt the approach taken by the Third Circuit in *Sebastian*." *Id.* at 1114 (App. at A8) (emphasis added).

These opposing approaches have a common departure point — a copyright owner itself controlling and making the initial distribution of a particular copy of a copyrighted work. When the U.S. owner of copyright itself exercises the distribution right, that right is exhausted upon the first sale. In case of a subsequent importation and sale of the same copy, section 602(a) no longer can give rise to "an infringement of the exclusive right to distribute copies . . . ." 17 U.S.C. §602(a). The right was already exercised for that particular copy and there

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(fn. continued)
(New Zealand licensee); *Hearst Corp. v. Stark*, 639 F.Supp. 970 (N.D.Cal. 1986) (books first distributed in United Kingdom by unrelated party); *Nintendo of America, Inc. v. Elcon Industries, Inc.*, 564 F.Supp. 937 (E.D.Mich. 1982) (Japan licensee).

[3] In its earlier decision in *Parfums Givenchy, Inc., supra*, the Ninth Circuit found no "dichotomy between sales by the copyright holder itself and by its licensees." 38 F.2d at 483, n.9. However, the two cases which the Ninth Circuit cited in support of this finding, *United States v. Atherton*, 561 F.2d 747, 751 (9th Cir. 1977), and *Platt & Munk Co. v. Republic Graphics*, 315 F.2d 847, 854 (2nd Cir. 1963), were decided under the 1909 Copyright Act. Section 602(a) was adopted in the 1976 Copyright Act.

is nothing left to be infringed. This analysis, however, does not apply when only a foreign licensee or assignee has distributed the copy abroad. In that case, section 602(a) will give rise to an infringement action since the U.S. copyright owner has not exercised its right of distribution with respect to that particular copy.

2. Purported Intent to Give "Full Value."

The Third and Ninth Circuits also diverged on whether sufficiency of the price (or reward) upon the first sale should affect the outcome of whether the distribution right has been exercised. The *Sebastian* decision considered the role of economic reward in the Copyright Act generally: "[Copyright] monopoly privileges are 'neither unlimited nor primarily designed to provide a special private benefit.' . . . Ultimately, the copyright law regards financial reward to the owner as a secondary consideration." 847 F.2d at 1095 (App. at D3-D4), *quoting Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984).

Moreover, the "secondary" importance of reward under the Copyright Act is reflected in the first sale doctrine itself: a first sale occurs when " 'there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use.' " 847 F.2d at 1096-97 (App. at D7) (citation omitted). The doctrine prevents the copyright owner from realizing an even greater reward by controlling the disposition of copies after the first authorized sale, even if the copy has been exported and then imported:

> With respect to future distribution of those copies in this country [after importation], clearly the copyright owner [Sebastian] already has received its reward through the purchase price.
>
> Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive 'a more adequate award' than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Id. at 1099 (App. at D12).

In contrast, the Ninth Circuit below viewed *maximization* of reward as a central purpose of section 602(a):

> '[a]pplying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate [the principle that the copyright owner is entitled to realize the full value of each copy or phonorecord upon its disposition] and defeat Congress' intent, in enacting Section 602(a), to expand importation protection for copyright owners so as to avoid circumvention of the distribution right.'

98 F.3d at 1116 (App. at A14) (quoting *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F.Supp.

1378, 1391 (C.D.Cal. 1993); parenthetical in Ninth Circuit text).

In incorrectly rejecting *Sebastian*'s reasoning, the Ninth Circuit said that "the *Sebastian* court appears to have missed th[is] crucial point" since unauthorized imports drive down the price of goods sold through authorized U.S. channels. *Id.* at 1117 (App. at A15). This, the Ninth Circuit held, "is just the evil that Congress sought to prevent in adopting § 602(a)."[4] *Id.*

This "full value" rationale also conflicts with a long line of cases which have held that a "first sale" occurs even where the first sale is at a reduced rate and the copyright owner later attempts to control the channels of distribution for certain copies of his work in the hope of obtaining a higher price for other copies of the same work. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 28 S.Ct. 722, 52 L.Ed. 1086 (1908) (copyright owner may

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[4] The Ninth Circuit acknowledged, however, that the legislative history contains no explicit reference to the interaction between sections 602(a) and 109(a). 98 F.3d at 1113, 1116 (App. at A6, A12-A14). Instead, the Court relied on scenarios discussed by representatives of the printing and recording industries in meetings occurring some 13 years before section 602(a) was even enacted, by a different Congress. *Id.* at 1116 (App. at A12-A14). As this Court has noted, statements such as these, which are not made by a member of Congress or included in the official Senate and House Reports, are to be accorded no significance. *Kelly v. Robinson*, 479 U.S. 36, 107 S.Ct. 353, 93 L.Ed.2d 216 (1986). Moreover, in the forward prepared by the Committee of the Judiciary accompanying the comments relied upon by the Ninth Circuit, the Chairman of the Committee stated specifically: "In approving this material, the Committee neither approves or disapproves of any of the views expressed therein." Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., Copyright Law Revision (Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law (Comm. Print 1963).

not control resale price of books, even to ensure that the price of used books does not drive down the sale price of unsold books remaining in the copyright owner's possession); *Harrison v. Maynard, Merrill & Company*, 61 F. 689 (2nd Cir. 1894) (copyright owner sold pages of book at a reduced rate to salvage companies); *Independent News Co. v. Williams*, 293 F.2d 510 (3rd Cir. 1961) (copyright owner sold copies at salvage); *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1151 (9th Cir.), *cert. denied*, __ U.S. __, 117 S.Ct. 190, 136 L.Ed.2d 128 (1996) ("there is no justification for reexamining the adequacy of the 'reward' received by the copyright owner in an alleged first sale where the owner has consented to that sale").

In the recently decided *Denbicare* case, the copyright owner stipulated to the sale of copyrighted products by a bankruptcy trustee subject to the restriction that the buyers be enjoined from reselling the products in the United States and Canada. *Id.* at 1150. The copyright owner consented to the injunction with these restrictions. The restrictions were violated. The copyright owner then argued that despite its consent there was no first sale because it "received no economic reward as copyright owner from the sale." *Id.* As noted, the Ninth Circuit rejected this argument, holding that "there is no justification for reexamining the adequacy of the 'reward' received by the copyright owner in an alleged first sale where the owner has consented to that sale." *Id.* at 1151.

In the present case, L'anza consented to the first sale by making that sale. Like the copyright owner in *Denbicare*, L'anza sought restrictions (in this case, on where its purchaser's purchaser could resell the goods). The Ninth Circuit has now embraced "adequacy of reward" as a prerequisite to the first sale doctrine, by

ruling that consent must be accompanied by receipt of "full value" for the goods.

This "full value" qualification originates from *dictum* in *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2nd Cir. 1963).[5] There a copyright owner contracted with a manufacturer to make a copyrighted product. Following a quality dispute, the copyright owner refused to pay and the manufacturer, claiming self help, sold the goods to others. The Second Circuit noted that in past cases, the first sale doctrine had been applied where it could be said that the copyright owner had received a "reward" from the sale. *Platt & Munk Co.*, 315 F.2d at 854. However, it ruled that the first sale doctrine depended on whether the manufacturer was entitled to sell the goods under its contract with the copyright owner, and remanded the case for such an adjudication. *Id.* The Ninth Circuit in our case relied on this "reward" *dictum* from *Platt & Munk*. 98 F.3d at 1115 (App. at A11-A12).[6]

In summary there are two linchpins to the Ninth Circuit's analysis below, each of which is in conflict with the reasoning of the Third Circuit in *Sebastian* and inconsistent with settled principles of copyright law. First,

[5] The *Denbicare* decision expressly rejected the so-called "reward" *dictum* of *Platt & Munk* holding that this rationale is "irrelevant" where the copyright owner's sale is a voluntary one. *Denbicare, supra*, 84 F.3d at 1151. The Ninth Circuit also rejected the "reward" *dictum* in *Platt & Munk* in the criminal context in *United States v. Atherton, supra*, 561 F.2d at 751-752. The Ninth Circuit has now taken a new course.

[6] It also cited but one other decision, *Parfums Givenchy, Inc. v. C & C Beauty Sales*, 832 F.Supp. 1378 (C.D.Cal. 1993), which in turn relied on *Platt & Munk*. The Ninth Circuit also cited 1 Paul Goldstein, *Copyright*, §5.5 at 588-89 (1989), which also relies only on the *Platt & Munk dictum*.

although section 602(a)'s language purports to set forth only an "infringement of the exclusive right to distribute . . . under section 106" which is exhausted by a first sale under section 109(a), the Ninth Circuit reasoned that section 602(a) would be rendered "meaningless" if it were so read. Unlike the Third Circuit, the Ninth Circuit found no meaning in the distinction between a sale by an unrelated third party and a sale by the copyright owner itself of the same copy that was subsequently imported. Second, the Ninth Circuit has engrafted onto sections 106(3), 109(a) and 602(a) an underlying objective of profit maximization — that until the copyright owner has received a full reward for the copy sold, it has not exhausted its right of distribution.[7]

C. This Court Should Not Wait To Resolve The Conflict.

This case presents an appropriate occasion to resolve the conflict concerning the relationship among sections 106(3), 109(a) and 602(a). The facts are similar in all relevant respects to those in *Sebastian*. In both cases, the goods were both manufactured and first sold and distributed by the U.S. owner of copyright, not by a licensee or assignee. Both cases involved goods which themselves were not copyrighted, but which simply had a copyrighted design on the package or label. Yet the

[7] In addition, the "full value" analysis espoused by the Ninth Circuit would create considerable commercial burdens on retailers who bought genuine gray market products. It would seem that such retailers would have to determine whether the gray market product had first been sold, upstream, for "full value" in order to know whether they risked liability for copyright infringement for reselling the product.

Third Circuit and Ninth Circuit reached opposed results relying upon opposed reasoning.

Other courts of appeals are not likely to shed further light on the relationship among sections 106(3), 109(a) and 602(a). Both the Third and the Ninth Circuits identified the same problem concerning that relationship: whether section 602(a)'s classification of certain importations as an infringement "under section 106" leaves available the defense of section 109(a) — a defense that is by its terms available "[n]otwithstanding the provisions of section 106(3)." Future cases will not find anything different.

Moreover, it is not likely that other circuits will have an opportunity to weigh in on this issue. Not surprisingly, every court of appeals decision under section 602(a) since *Sebastian* has been in the Ninth Circuit.[8] That is where copyright owners will bring future suits. The legal press has reported that the Ninth Circuit has "staked out a position as the most protectionist appeals court on this issue." Nat'l L. J., January 27, 1997, at C10. "Should it not be adopted nationally, the L'anza rule is likely to make the 9th Circuit a mecca for U.S. copyright holders who wish to bar gray-market goods from the United States." *Id.* at C11.

This problem involves a fundamental area of federal law, the Copyright Act, which potentially affects most forms of commerce — from computer software to any consumer product (like the hair care products here) that could have its label design copyrighted. Because section 602(a) concerns "importation," the issue affects an

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[8] There have been five such Ninth Circuit decisions. *BMG Music, supra*; *Parfums Givenchy, supra*; *Denbicare U.S.A., supra*; *Disenos Artisticos E Industriales, S.A., v. Costco Wholesale Corporation*, 97 F.3d 377 (9th Cir. 1996); and the present case, *L'anza*.

important aspect of international trade. The conflict between this case and *Sebastian* is not trivial, or one for which any risks of an early resolution by this Court will outweigh the costs of delay

II. THE RELATIONSHIP BETWEEN SECTIONS 106(3), 602(a) AND 109(a) INVOLVES AN IMPORTANT QUESTION OF FEDERAL LAW WITH BROAD COMMERCIAL AND POLICY IMPLICATIONS.

A. Impact On Commerce And New Litigation.

The Ninth Circuit's ruling has broad commercial implications. By the simple expedient of copyrighting a label or package design, any producer of any consumer product can control all import competition in its product in the United States — particularly price competition. The volume of international trade and commerce into the United States of such parallel imports (or gray market goods) exceeds $10 billion annually. *See* Gilson, *Trademark Protection and Practice*, §4.05(1) (ed. 1996) (relying on 1985 studies). The Ninth Circuit's decision puts businesses nationwide in an untenable position. Conduct which is lawful in the Third Circuit subjects a company to liability for copyright infringement in the Ninth Circuit. Indeed, companies with any presence in the Ninth Circuit can be sued by forum shopping plaintiffs for lawful acts occurring in the Third. 28 U.S.C. §1400(a) (Copyright venue exists where "the defendant or his agent . . . may be found."); *see Yee v. City of Escondido*, 503 U.S. 519, 538, 112 S.Ct. 1522, 1534, 118 L.Ed.2d 153 (1992) ("Forum shopping is . . . of particular concern."). This uncertainty applies to all who purchase or resell genuine gray market products.

Uniformity on this important issue is required so that an important segment of business can know how to conduct itself. Given the exceptional amount of commerce affected and the certain prospect of substantial future litigation, this Court should resolve the debate.

B. Impact On The Balance Between Copyright And Competition.

The copyright laws create limited monopolies, statutory exceptions to the normal rules of free and open competition. The extent of distribution rights under the Copyright Act necessarily affects the balance between competition, on the one hand, and the incentive to creativity underlying the copyright monopoly, on the other. Where, as here, a court of appeals engrafts upon the Copyright Act policies and purposes that do not appear from the text of the statute, the balance Congress intended may be upset.

Respect for the role of competition is implicit in the first sale doctrine itself. The doctrine "finds its origins in the common law aversion to limiting the alienation of personal property." *Sebastian, supra*, 847 F.2d at 1096 (App. at D6). Even before the first sale doctrine was first codified in 1909, our copyright laws were construed as not allowing the "restriction upon the subsequent alienation of [a copyrighted article] after the [copyright] owner had parted with the title to one who had acquired full dominion. . . ." *Bobbs-Merrill Co. v. Straus, supra*, 210 U.S. at 350, 28 S.Ct. at 726.[9]

[9] *See Harrison v. Maynard, Merrill & Co., supra*, 61 F. at 691; *Doan v. American Book Co.*, 105 F. 772, 776 (7th Cir. 1901).

When first codifying the doctrine in the 1909 Copyright Act, and then reenacting it as section 109(a) of the 1976 Copyright Act, Congress purported simply to restate existing law.[10] In 1990, Congress reaffirmed the integrity of the first sale doctrine:

> The first sale doctrine represents an important balancing of interests. The doctrine prohibits copyright owners from controlling the terms and conditions of further distribution of lawfully made copies of a work once the initial authorized distribution of those copies has taken place. . . . *Congress has, in the past, resisted proposals to alter the balance achieved in section 109, requiring those seeking amendments to make a compelling case for change.*

H.R. Rep. No. 735, at 7, 1990 U.S.C.C.A.N. at 6938. (emphasis added).

The policies that the Ninth Circuit has engrafted on the Copyright Act implicate this "important balancing of

[10] H.R. Rep. 2222, 60th Cong. 2d Sess. 28-29 (1909) *reprinted in* Brylawski and Goldman, 6 Legislative History of the 1909 Copyright Act (1976) at S19 ("Section 41 is not intended to change in any way existing law. . . . [I]t would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale"); H.R. Rep. 1476, 94th Cong. 2d Sess. 79, *reprinted in* 1976 U.S.C.C.A.N. at 5693 ("Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy . . . the person to whom the copy . . . is transferred is entitled to dispose of it by sale, rental, or any other means").

interests." They also raise an important question of statutory construction: Absent a clear congressional command, should a statute be construed to restrict free market principles and limit competition? Congress has established "competition as the fundamental principle governing commerce in this country." *Lafayette LA. v. Louisiana Power & Light Co.*, 435 U.S. 389, 398, 98 S.Ct. 1123, 1129, 55 L.Ed.2d 364 (1978). By the same token, "copyright is . . . an exception to the general public policy against restraints of trade." *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990) (competition invoked to limit claims of copyright infringement when the copyright is misused).

This Court has, for example, invoked the policy favoring competition to limit claims under the patent laws and copyright: "[T]his Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition" are grounds not to "expand patent rights." *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530-31, 92 S.Ct. 1700, 1708, 32 L.Ed.2d 273 (1972).[11] It has similarly limited the scope of claimed rights under the Copyright Act by recourse to the competition policies of antitrust law with the reach of the Copyright Act. *United States v.*

[11] Patent law is relevant to interpreting copyright law "because of the historic kinship between patent law and copyright law." *Sony Corp., supra*, 464 U.S. at 439, 104 S.Ct. at 787. Courts have long construed the patent laws to include a first sale doctrine, even though Congress has not codified it there. *Adams v. Burke*, 84 U.S. 453, 456, 21 L.Ed. 700, 17 Wall. 453 (1873) (upon sale, a patented item "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."); *United States v. Univis Lens Co.*, 316 U.S. 241, 249, 62 S.Ct. 1088, 1092-93, 86 L.Ed. 1408 (1942); *Hensley Equipment Co. v. Esco Corp.*, 383 F.2d 252, 263 (5th Cir. 1967).

Paramount Pictures, Inc., 334 U.S. 131, 158-59, 68 S.Ct. 915, 929-30, 92 L.Ed. 1260 (1948).

In this case the Ninth Circuit has shifted the boundary between where intellectual property claims specified by Congress end and where principles of competition begin. The Ninth Circuit has held that copyright owners now are entitled to reap full value, maximize their potential reward from a distribution of any copy. This new rule will alter the decisions of all businesses that deal in imported goods with a copyrighted label or feature. Such a foray by the courts into the realm of macro-economics, unsupported by clear statutory language, should not go unreviewed.

CONCLUSION

The petition should be granted.

DATED: March 14, 1997.

Respectfully submitted,

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APPENDIX A

FOR PUBLICATION

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

L'ANZA RESEARCH INTERNATIONAL, INC.,
Plaintiff-Appellee,
v.
QUALITY KING DISTRIBUTORS, INC., a New York Corporation,
Defendant-Appellant.

No. 95-56447
D.C. No. CV-94-00841-JSL
OPINION

Appeal from the United States District Court
for the Central District of California
J. Spencer Letts, District Judge, Presiding

Argued and Submitted
August 6, 1996—Pasadena, California

Filed October 22, 1996

Before: Dorothy W. Nelson, Thomas G. Nelson, and Sidney R. Thomas, Circuit Judges.

Opinion by Judge D. W. Nelson

OPINION

D.W. NELSON, Circuit Judge:

This case involves a copyright infringement claim brought by L'anza Research International, a manufacturer and distributor of hair care products, against Quality King Distributors pursuant to 17 U.S.C. § 602(a). Section 602(a) prohibits the importation of U.S. copyrighted goods acquired outside of the United States without the authorization of the copyright

owner. Quality King appeals the district court's order specifying issues existing without substantial controversy and granting summary judgment in favor of L'anza. It also appeals the district court's order granting a permanent injunction prohibiting Quality King from importing and selling certain L'anza hair care products in the United States. We affirm.

FACTUAL AND PROCEDURAL BACKGROUND

L'anza manufactures and distributes hair care products. In order to establish and maintain its reputation for selling high quality products, L'anza requires that its U.S. distributors sell L'anza products only to authorized vendors such as beauty salons and colleges. L'anza also sells its products abroad through "master distributors," who may sell L'anza products within defined geographical areas outside of the United States. These overseas distributors pay approximately 35 to 40% less for L'anza products than do domestic distributors because they do not receive the benefit of L'anza's extensive advertising and promotional activities conducted in the United States but rather, must market the products themselves. L'anza asserts that it has never authorized any distributor to import into the United States L'anza products that have been sold abroad.

In February, 1994, L'anza discovered that a number of its products were being sold at Vessey Drugs, in Carmel, California. Because in every shipment some L'anza bottles are marked to allow tracing, L'anza was able to determine that the products being sold at Vessey Drugs had been purchased from a distributor in Malta, L. Intertrade, and imported (without L'anza's authorization) by Quality King Distributors. Originally, the products had been manufactured in the United States and then sold through L'anza's distributor in the United Kingdom, Planetary Eco, to L. Intertrade. L'anza sold the products at a substantial discount with the understanding that they would be distributed in Malta, and possibly Libya. Instead, L. Intertrade sold the products to Quality King Distributors, which purchased in their entirety the three shipments that had been sent to the United Kingdom[1] and imported the products back into the United States without L'anza's permission. It then sold them to a number of buyers, including Vessey Drug.

The record indicates that a L'anza representative purchased the following products from Vessey Drug: Styling Foam, Multi-Mist, Super Quatre Spray, and Remede Shampoo. However, the shipments that Quality King purchased from L. Intertrade and imported to the United States also contained a number of other L'anza products. L'anza owns the copyright for the labels on many of these products, the registration for which was issued on January 7, 1994 (Copyright Registration TXU 593-178). Copyright Registration TXU 593-178 lists the following products: Super Quatre, Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisturizing Treatment, Re-Balance Leave-In Conditioner, Re-Balance Shampoo Plus, Re-Balance Styling Foam. L'anza also requests that the court take judicial notice of copyright registrations issued July 21, 1995 for the same products as are listed in Copyright Registration TXU 593-178 plus Curls & Color Moisturizing Shampoo.

L'anza filed a complaint against Quality King and others who were selling L'anza products that they had purchased from Quality King alleging that they had violated § 602(a) of the 1976 Copyright Act by importing products to which L'anza owned the copyright without L'anza's permission.[2] Quality King responded by denying that it had violated

[1]It is not clear from the record whether the products actually reached Malta. However, the evidence in the record indicates that the products were, in fact, shipped to the United Kingdom.

[2]L'anza also brought a tort action against Quality King in state court, which went to trial in April, 1995. In May, the jury returned a verdict in favor of L'anza, finding by clear and convincing evidence that Quality King had acted with malice and fraud against L'anza.

L'anza's copyright and raising two affirmative defenses: 1) the first sale doctrine of 17 U.S.C. § 109(a); and 2) unclean hands arising from L'anza's intent to sell the products at issue to Libya in violation of the Libyan trade embargo.

L'anza then moved for an order specifying issues without substantial controversy and sought summary judgment on Quality King's first sale defense as well as a determination that L'anza owned all right, title and interest in copyright registration No. TXU 593-178. *Id.* The district court granted L'anza's motion on May 4, 1995. On July 25, 1995, the district court also granted L'anza's motion for a permanent injunction enjoining Quality King from importing and selling the following L'anza products that had been sold previously outside of the United States: Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisturizing Shampoo, Re-Balance Leave-In Conditioner, Re-Balance Shampoo Plus and Re-Balance Styling Foam. Finally, on September 29, 1995, the district court entered judgment in the amount of $132,616 in damages (stipulated by the parties to avoid trial) in favor of L'anza.

On appeal, Quality King challenges the district court's judgments on a number of grounds, asserting that: 1) the district court erred in rejecting Quality King's first sale defense and declining to adopt the Third Circuit's holding in *Sebastian Int'l Inc. v. Consumer Contacts, Ltd.*, 847 F.2d 1093 (3d Cir. 1988); 2) the district court erred in finding that L'anza had provided adequate evidence to show that Quality King had acquired the L'anza products outside of the United States and without L'anza's authorization, both prerequisites of § 602(a); 3) the district court erred in rejecting Quality King's unclean hands defense; 4) the district court erred because L'anza does not own the copyright to some of the products that Quality King imported, and therefore does not have standing to bring copyright claims for all of the products that are the subject of its lawsuit; 5) the district court's injunction should be vacated because it is overbroad in that it

enjoins lawful as well as unlawful behavior and because it does not provide Quality King with adequate notice of when it is violating the injunction.

STANDARD OF REVIEW

A grant of summary judgment is reviewed de novo. *Jesinger v. Nevada Federal Credit Union*, 24 F.3d 1127, 1130 (9th Cir. 1994). We review a district court's determinations as to party standing de novo. *Barrus v. Sylvania*, 55 F.3d 468, 469 (9th Cir. 1995). The scope of injunctive relief is reviewed for an abuse of discretion or application of erroneous legal principles. *Dexter v. Kirschner*, 984 F.2d 979, 982 (9th Cir. 1992).

ANALYSIS

I. *The First Sale Doctrine and Section 602(a)*

[1] Quality King asserts that the district court erred in holding that L'anza's claim under § 602(a) of the 1976 Copyright Act is not barred by the first sale doctrine of § 109(a). Section 602(a) provides in relevant part, that:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

17 U.S.C. § 602(a). Section 602(a), thus, gives the copyright owner a distribution right under § 106. Section 106 provides in relevant part, that:

> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

. . .

> 3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;

17 U.S.C. § 106(3). The first sale doctrine, however, limits the rights embodied in § 106(3), providing that:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a). From the text of the 1976 Copyright Act, it is unclear whether § 602(a) creates a right that is distinct from § 106(3) and therefore is not limited by § 109(a), or alternatively, whether § 602(a) is merely an extension of § 106(3) and therefore *is* limited by § 109(a).

[2] In resolving the question of whether the first sale doctrine applied in this case, the district court was faced with an issue of first impression. The Ninth Circuit has held that the first sale doctrine *does not* bar an action under § 602(a) where there has been a lawful sale abroad of foreign manufactured U.S. copyrighted goods. *Parfums Givenchy v. Drug Emporium*, 38 F.3d 477, 480-481 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995); *see also BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 2997 (1992). However, it has explicitly declined to pass upon the question of whether the first sale doctrine would bar an action involving the exportation and later importation of U.S. copyrighted goods originally manufactured in the United States. *BMG Music* 952 F.2d at 319 n.3.

The district court relied upon the Ninth Circuit rule that " 'the words "lawfully made under this title" in § 109(a) grant

first sale protection only to copies legally made and sold in the United States.' " District Court Order filed July 7, 1995 [hereinafter, District Court Order] (quoting *Drug Emporium*, 38 F.3d at 481 (quoting *BMG Music*, 952 F.2d at 319)). It found that although the copies at issue were made in the United States, they were not sold in the United States, and therefore, the first sale doctrine did not apply. It reached this conclusion based on the fact that L'anza intended that the products would be sold exclusively outside of the United States, explaining that:

> [b]ecause L'anza's copyrighted works were sold to a foreign distributor for distribution in foreign markets, the court finds that the sale occurred outside the United States . . . . To hold otherwise would undermine the stated purpose of § 602 . . . and the principle that a copyright owner is entitled to realize the full value of each copy upon its disposition.

District Court Order. The court also noted that Quality King's argument that the goods were sold in the United States because that is where title passed from L'anza to Planetary Eco (the U.K. distributor) was "irrelevant," explaining that

> [w]hen title passes does not necessarily indicate a "sale" for the purposes of the "first sale" defense to copyright infringement. *See Cosmair, Inc. v. Dynamite Enterprises*, 1985 WL 2209, *3 (S.D.Fla. 1985) ("it is not clear whether the passing of title rather than the intent of the parties is determinative of whether there was a sale in the United States . . .").

Id. at 756 n.5.

In holding that the first sale doctrine did not apply in this case, the district court declined to follow the approach taken by the Third Circuit in *Sebastian Int'l Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093 (3d Cir. 1988). In *Sebastian*, a man-

ufacturer of hair care products, Sebastian International, entered into an oral contract with the defendant to distribute its products to salons in South Africa but not elsewhere. *Id.* at 1094. The products were shipped to South Africa but then were reshipped to the United States and sold. *Id.*

The *Sebastian* court noted that the facts in that case were distinguishable from a number of district court cases in which courts had found that the first sale doctrine did not apply, where "the copies were produced abroad and the sales occurred overseas." *Id.* at 1098. However, it went on to note that "the place of sale is not the critical factor in determining whether section 602 governs." *Id.* at 1099. The court reasoned that:

> Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive "a more adequate award" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Id. Thus, the court held that the first sale doctrine bars an action under § 602(a) *even if the goods were sold outside of the United States*, so long as the goods were manufactured in the United States and sold by the copyright owner. *Id.* at 1098.

We decline to adopt the approach taken by the Third Circuit in *Sebastian*. However, we emphasize that our holding does not depend upon the words "lawfully made under this title" in § 109(a), which have been interpreted by this and other courts to grant first sale protection only to copies legally made and sold in the United States. *See BMG*, 952 F.2d at 319; *Drug Emporium*, 38 F.3d at 481; *see also T.B. Harms*

Co. v. Jem Records, Inc., 655 F. Supp. 1575, 1583 (D.N.J. 1987); *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 49 (E.D.Pa. 1983), *aff'd*, 738 F.2d 421 (3d Cir. 1984). Rather, we rely upon the alternative ground on which *BMG* and *Drug Emporium* were decided, that § 602(a) would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation in this case. *See BMG*, 952 F.2d at 319; *Drug Emporium*, 38 F.3d at 481.

The Logic of Scorpio

The conclusion that the words "lawfully made under this title" in § 109(a) apply only to goods manufactured and sold in the United States was first articulated in *Columbia Broadcast Systems v. Scorpio Music Distributors*. 569 F.Supp. at 49. There, Scorpio Music Distributors had purchased phonorecords from a corporation that had manufactured them legally in the Philippines. Scorpio then imported the records without the authorization of CBS, which owned the copyrights to the records, and CBS brought an action pursuant to § 602(a). The court rejected Scorpio's argument that the action was barred under § 109(a) because the records had already been the subject of a lawful first sale. The court reasoned that:

> Defendant's contentions would be more persuasive were it not for the phrase — lawfully made under this title — in § 109(a). I conclude that the section grants first sale protection to the third party buyer of copies which have been legally manufactured and sold within the United States and not to purchasers of imports such as are involved here. The protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states. Absent a clearly expressed legislative intent to the contrary, statutory language must be recognized as conclusive.

Id. (citations omitted). In addition, the court said, "construing § 109(a) as superseding the prohibition on importation . . . would render § 602 virtually meaningless." *Id.* The Ninth Circuit adopted the approach of *Scorpio* in *BMG Music*. 952 F.2d at 319.

While many courts, including the Ninth Circuit, have followed *Scorpio*, the consensus among legal scholars is that the reasoning of *Scorpio* is flawed. *See* 2 Nimmer on Copyright, § 8-12[B][6] at 8-157 n. 95 (1996); 1 Paul Goldstein, Copyright § 5.6.1, at 604 (1989); Stephen W. Feingold, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U.J. Int'l L. & Pol. 113, 130 (1984). Courts, too, have expressed uneasiness about *Scorpio*'s reasoning. *See, e.g., Drug Emporium*, 38 F.3d at 482 n.8; *Sebastian*, 847 F.2d at 1098 n. 1. In fact, the district court explicitly rejected the approach of the *Scorpio* court in *Parfums Givenchy v. C & C Beauty Sales*, 832 F.Supp. 1378, 1386 (C.D.Cal. 1993).

The *Scorpio* court appeared to rely upon two different justifications for finding that § 109(a) does not apply outside of the United States: 1) it is generally presumed that the U.S. Code does not apply extraterritorially, and 2) the words "lawfully made under this title" were intended to refer only to copies made and sold in the United States. *Scorpio*, 569 F.Supp. at 49. As the *C & C* court explained, neither justification is well-founded:

> Absent a clearly expressed statutory intent to the contrary, courts should presume that the United States Code applies only to actions "occurring within, or having effects within" the United States. . . . However, the unauthorized importation into and distribution within the United States of copyrighted goods clearly has an effect within the United States — it prevents the United States copyright owner from realizing the full value of each copy released into the United States market with his authorization.

> Thus, the judicial presumption against the application of United States statutory law does not apply in cases such as *BMG Music*, *Scorpio*, or the present case . . . . [Moreover], the legislative history of Section 109(a) reveals that the phrase "lawfully made under this title" . . . makes no reference to the location of the manufacture or sale of the goods.

832 F.Supp. at 1386-1387 (citations omitted). However, the *C & C* court agreed with *Scorpio*'s holding based on the alternative ground offered by *Scorpio* that § 602(a) would be rendered meaningless if the first sale doctrine were found to supersede the ban on importation. *Id.* at 1387; *see also BMG Music* at 319. This rationale justifies the district court's decision in this case as well.

Congressional Intent Underlying Sections 106(3), 109(a) and 602(a)

[3] The *C & C* court explained that the distribution right in § 106(3) allows the copyright owner to decide "when, under what circumstances, and for what price he will release copies of his work to the public." 832 F.Supp. at 1388. However, once the copyright owner has voluntarily sold his work to the public, the new owner may transfer or sell the copy without the permission of the copyright owner, pursuant to § 109(a). This first sale doctrine "presupposes that the copyright owner will be able to realize the full value of each authorized copy . . . upon its first sale to a purchaser." 1 Goldstein, Copyright, § 5.5. at 588-589. Thus, once the copyright owner has received his full value for the copy, the policy goal of protecting the copyright holder gives way to the policies disfavoring limitations on the alienation of property. *C & C*, 832 F.Supp. at 1388. *See also Platt & Munk, Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963) ("the ultimate question embodied in the 'first sale' doctrine [is] whether or not there has been such a disposition of the article that it may fairly be

said that the patentee (or copyright proprietor) has received his reward for the use of the article").

[4] The prohibition of § 602(a) against unauthorized importation of goods acquired outside of the United States was adopted in response to concerns expressed by members of the printing and recording industries concerning their lack of ability to control importation of copyrighted goods. Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., Copyright Law Revision (Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 212 (Comm. Print 1963)) [hereinafter, 1963 Discussion and Comments]. Prior to the adoption of the 1976 Copyright Act, it was forbidden to import any "piratical" copies of a work, that is, copies made without the authorization of the copyright owner. Copyright Act of 1909 § 106. Section 602(a), in contrast, was intended to prohibit the importation not only of piratical copies but also copies that were lawfully made. *See* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785.

[5] The legislative history of the 1976 Copyright Act contains no explicit reference to the interaction between §§ 602(a) and 109(a). However, the scenarios that were discussed by representatives of the printing and recording industries in assessing § 602(a) suggest that § 109(a) was not intended to limit the scope of § 602(a). A typical scenario was described by one publisher as follows:

> frequently you run into a situation where there is a copyright proprietor in the United States and copies of the same work . . . produced in a foreign country, may be shipped over here without violating any contract of the U.S. copyright proprietor. This is either because . . . the [foreign] publisher *sold it* to an individual who in turn shipped it over here . . . or because of some network of contract rights . . . .

1963 Discussion and Comments at 213 (emphasis added). A music industry representative noted that:

> We've had a similar situation with respect to motion picture prints, which are sent [from the United States] all over the world — legitimate prints made from the authentic negative. These prints get into illicit hands. They're stolen, and there's no contractual relationship. . . . Now [these] are not piratical copies. . . . They could not come within [section 106 of the 1909 Copyright Act].

Id. In other words, importation of copies from *outside* of the United States was undermining the right guaranteed to U.S. copyright holders in § 106(3) to control the distribution (including the price and quantity) of copies distributed through authorized channels *within* the United States. As a result, copyright owners were deprived of the "full value" to which they were entitled for the copies sold within the United States, even though the imported copies may have been the subject of a valid first sale.

The *C & C* court explained this point as follows:

> [The] "full value" — the price at which the copyright owner is willing to sell copies of his work — depends on market conditions and, in today's global economy, varies from country to country. For example, the owner of a copyright in a sound recording may demand $10 each to sell 1 million phonorecords of that sound recording in the United States, but may be willing to sell another 1 million phonorecords for $7 each in Australia in order to enter the market there or for some other legitimate business purpose. If the phonorecords originally sold for $7 in Australia are allowed to enter the United States, where they may then be sold again for, say, $8, the United States copyright owner is forced to compete with that price,

> and thus is prevented from receiving the $10 to which he is entitled for each of the phonorecords initially released into the United States market.

C & C, 832 F. Supp. at 1390-91. Thus, the *C & C* court concluded,

> [a]pplying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate [the principle that the copyright owner is entitled to realize the full value of each copy or phonorecord upon its disposition] and defeat Congress' intent, in enacting Section 602(a), to expand importation protection for copyright owners so as to avoid circumvention of the distribution right.

Id. at 1391.

[6] Although *C & C* addressed the importation of copies manufactured outside of the United States, its logic is equally applicable to the scenario at issue here, where the copyright owner sold U.S. manufactured goods at a substantial discount, with the intent that they would be sold exclusively outside of the United States (Quality King concedes that the goods were to be sold outside of the United States). Just as in the example offered by *C & C*, the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels, notwithstanding the fact that the imported products were manufactured in the United States and sold by L'anza. As a result, it would contradict the congressional intent underlying §§ 106(3), 109(a) and 602(a) if we were to hold that § 109(a) barred liability under § 602(a) in this case.

[7] The *Sebastian* court arrived at a contrary conclusion because it found that the copyright owner received the full value for the products that it sold to the South African distributor, in the form of the purchase price. 847 F.2d at 1099. It may be that in *Sebastian*, the hair care products were not sold at a substantial discount, as they were in this case. Nonetheless, the *Sebastian* court appears to have missed the crucial point that unauthorized imports cause copyright owners to lose control over domestic distribution, thus driving prices down for goods sold *through authorized channels in the U.S. market*. This is just the evil that Congress sought to prevent in adopting § 602(a).

Finally, we reject the argument made by Amicus Curiae American Free Trade Association ("AFTA") that changes made by Congress in 1990 concerning the application of the first sale doctrine with respect to computer software indicate that Congress intended that § 602(a) should be limited by § 109(a). Specifically, AFTA argues that when Congress amended § 109(e) of the copyright law to overrule the Fourth Circuit's decision in *Red Baron-Franklin Park v. Taito Corp.*, 883 F.2d 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990), it implicitly endorsed the district court's opinion in that case.[3] The court rejected this argument in *Drug Emporium*, 38 F.3d at 482-483 n.9, and so do we.

The district court in *Red Baron* followed (and expanded upon) the rule of *Sebastian*, holding that the first sale doctrine barred an action pursuant to § 602(a) claiming unauthorized

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[3]Section 109(e) provides that:

> Notwithstanding the provisions of sections 106(4) and 106(5), in the case of an electronic audiovisual game intended for use in coin-operated equipment, the owner of a particular copy of such a game lawfully made under this title, is entitled, without the authority of the copyright owner of the game, to publicly perform or display that game in coin-operated equipment, except that this subsection shall not apply to any work of authorship embodied in the audiovisual game if the copyright owner of the electronic audiovisual game is not also the copyright owner of the work of authorship.

17 U.S.C. § 109(3).

importation of U.S. copyrighted computer circuit boards that were lawfully manufactured and sold in Japan and then imported to the United States. *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 9 U.S.P.Q. 2d 1901, 1903 (E.D.Va. 1988), *rev'd*, 883 F.2d. 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990). However, the Fourth Circuit reversed on other grounds, finding that the first sale doctrine did not apply to the public performance right under § 106(4). The court did not address the relationship between the first sale doctrine and § 602(a) because this issue was not raised on appeal. 883 F.2d at 278. Thus, in amending § 109(e), Congress was concerned about the relationship between the first sale doctrine and § 106(4), not the relationship between the first sale doctrine and § 602(a). *See* H.R.Rep.No. 101-735, 101st Cong., 2d Sess. 9, *reprinted in* 1990 U.S.C.C.A.N. 6935, 6938-40.

II. *Whether Quality King Violated Section 602(a)*

[8] Even if the first sale doctrine does not bar L'anza's § 602(a) action, Quality King contends that L'anza failed to establish that Quality King actually violated § 602(a). Quality King argues that L'anza did not demonstrate that 1) the products at issue were acquired outside of the United States; and 2) they were imported without L'anza's authorization. Both assertions lack merit.

"Acquired outside of the United States"

Quality King asserts that the goods at issue in this case were not "acquired outside of the United States" as required by § 602(a) because when L'anza sold the products to its U.K. distributor, Planetary Eco, title to the goods passed in the United States. This argument is flawed. Quality King appears to conflate the question of whether there was a "first sale" in the United States with the question of whether the goods were "acquired outside of the United States" for the purposes of § 602(a). These two inquiries are not necessarily the same. In fact, it is not clear from the statute which point in the chain

of acquisition the requirement that a good be "acquired outside of the United States" relates to. Because there are no cases which squarely hold that a good was "acquired outside of the United States" in violation of § 602(a) where the goods were manufactured in the United States, this too is a question of first impression.

[9] We find that the copies were acquired outside of the United States for two reasons. First, the record indicates that Quality King purchased the L'anza products from a subdistributor in Malta, that the products did, in fact, leave the United States in three shipments to the United Kingdom, and that they were destined for Malta.[4] Thus, this case is distinguishable from *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996). In *Denbicare*, the plaintiff itself had imported the products at issue from its foreign manufacturer, and the products were being held in a foreign trade zone in San Francisco when the sale occurred. 84 F.3d at 1145. The court held that a foreign trade zone is part of the United States, and therefore, that the products were not "acquired outside of the United States" for the purposes of § 602(a). *Id.* at 1149. Therefore, the court did not reach the issue of the interaction between § 602(a) and the first sale doctrine.

[10] Second, we reject the argument that the goods were not acquired outside of the United States because the *first* sale occurred in the United States (even assuming that this is true). Such an approach would, *de facto*, limit the right created in § 602(a) by the first sale doctrine. For the reasons stated in the preceding section, this would be contrary to congressional intent.

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[4]As both parties appear to have conceded in the briefs that the L'anza products left the United States in three shipments, we do not address Quality King's unsupported assertion, raised for the first time at oral argument, that the products never left the United States.

"Without L'anza's authorization"

Quality King also asserts that L'anza's § 602(a) claim should fail because L'anza did not produce admissible evidence that the products were reimported without L'anza's authorization. Specifically, Quality King argues that L'anza should have produced a "master agreement" between Planetary Eco and L. Intertrade (the distributor in Malta) forbidding the importation of the L'anza products. Alternatively, it argues that L'anza should have produced evidence that the products were marked "for export only."

[11] Section 602(a), by its plain terms, places the burden on the defendant to prove that the allegedly infringing goods were imported *with* the authorization of the U.S. copyright owner. L'anza produced affidavits from the heads of L'anza and Planetary Eco stating that it was always the intent of both parties that the goods would be sold outside of the United States. In fact, Quality King concedes that the goods were to be sold outside of the United States. Further, in an affidavit, the president of L'anza stated that L'anza had never authorized the importation of the goods at issue in this case. Quality King does not even *argue* that the importation of these goods was authorized, much less present any evidence of authorization. Thus, we reject this argument.

III. *Quality King's "Unclean Hands" Defense*

[12] Quality King also argues that L'anza's action should be barred because of its "unclean hands." According to Quality King, L'anza had unclean hands because it exported the goods at issue in this case with the intent that they should ultimately be shipped to Libya, in violation of Executive Order 12543 (Jan. 7, 1986) and 31 C.F.R. § 550.409. Quality King relies in support of its argument upon the affidavit of Robert De Lanza (Founder and Chairman of the Board of Directors of L'anza), in which he states that the products were sold to L. Intertrade "for sale in Malta and possibly Libya."

[13] Pursuant to 31 C.F.R. § 550.409, "[e]xports of goods . . . from the United States to third countries are prohibited if the exporter knows, or has reason to know that . . . [t]he goods are intended for transshipment to Libya . . . without coming to rest in a third country . . . ." Here, it is undisputed that L'anza intended that the products would come to rest in a third country, that is, Malta. Hence, L'anza did not violate the trade embargo against Libya and we reject Quality King's unclean hands defense.

IV. *Standing*

Quality King asserts that L'anza lacked standing because it did not present copyright registration forms for a number of the products that were included in the shipments to Malta and that were ultimately imported by Quality King. A copyright owner wishing to bring an action for infringement must demonstrate that he has registered the work with the Copyright Office, or at least, deposited an application for registration with the appropriate fee to the Copyright Office. 17 U.S.C. § 411(a).

It is true that L'anza has not provided copyright registrations for some of the products that Quality King imported. However, L'anza's complaint did not necessarily allege violations with respect to these products. Rather, the only products listed by name in L'anza's complaint were: Super Quatre; Multi-Mist; Lavenda; Biotane; Vitro; Remede; Curls & Color Moisture Treatment; Curls and Color Moisturizing Shampoo; Re-Balance Leave-In Conditioner; Re-Balance Shampoo Plus; and Re-Balance Styling Foam. Of these, the only product that is not included on Copyright Registration TXU 593-178 is Curls & Color Moisturizing Shampoo. In its supplemental excerpt of record, however, L'anza provided a copy of the copyright registration for this product as well, of which it requested judicial notice in the district court.

[14] To the extent that L'anza's complaint may have purported to relate to products that were not included in Copyright Registration TXU 593-178,[5] the district court declined to exercise jurisdiction in its order of July 6, 1995. In that order, the district court held that "L'anza owns all right, title, and interest in U.S. copyright registration No. TXU 593-178." Thus, the district court only adjudicated the claim with respect to the products for which L'anza clearly had standing. L'anza also had standing with respect to all of the products covered by the district court's orders of July 25 and September 29, 1995. These orders included the products listed in copyright registration No. TXU 593-178 as well as Curls & Color Moisturizing Shampoo, for which L'anza presented a valid copyright registration. We therefore hold that L'anza has standing with respect to all of the products covered by the district court's orders.

V. *Breadth of Permanent Injunction*

[15] Quality King asserts that the district court's injunction must be reversed for several reasons: 1) because L'anza did not demonstrate a continued likelihood of infringement; 2) because the injunction forbids lawful behavior by enjoining even the importation of L'anza products *with* L'anza's authorization; 3) because it is difficult for Quality King to determine which products violate the injunction, given that

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[5]L'anza's first amended complaint is vague as to which products it actually alleges copyright infringement, referring throughout the complaint to "L'anza products" and only listing specific products in a single paragraph:

> Plaintiff is the exclusive maker and seller of L'anza hair care products in the United States and the remainder of the world. These products include, but are not limited to, the following L'anza hair care products: Super Quatre; Multi-Mist; Lavenda; Biotane; Vitro; Remede; Curls & Color Moisture Treatment; Curls & Color Moisturizing Shampoo; Re-Balance Leave-In Conditioner; Re-Balance Shampoo Plus; and Re-Balance Styling Foam.

[First Amended Complaint, 1 ER: 8]

imported products are not marked and Quality King may not be able to trace their origin. Quality King has failed to demonstrate that the district court abused its discretion or applied an erroneous legal standard. *See Dexter v. Kirschner*, 984 F.2d 979, 982 (9th Cir. 1992).

Continued Likelihood of Infringement

"[A]s a general rule, a copyright plaintiff is entitled to a permanent injunction when liability has been established and there is a threat of continuing violations." *Universal Studios, Inc. v. Sony Corp. of America*, 659 F.2d 963, 976 (9th Cir. 1981), *rev'd on other grounds*, 464 U.S. 417 (1984); *See also* 3 Nimmer § 14.06[B] at 14-101 (1996). Here, L'anza presented evidence that Quality King still possessed L'anza products in its inventory and that it intended to sell them. Thus it appears that there is a threat of future infringement and the district court did not abuse its discretion.

Lawful Behavior Enjoined

Quality King asserts that the injunction is overbroad because it enjoins Quality King from importing L'anza products with L'anza's permission. Because there appears to be little likelihood that L'anza would ever grant such permission to Quality King, this assertion is speculative and does not support Quality King's argument that the district court abused its discretion.

Unfair Burden

Finally, Quality King argues that the injunction places an unfair burden on it because of the difficulty of determining the origin of particular L'anza products. In its support, it points to a Third Circuit decision in which the court held that "[b]road, non-specific language that merely enjoins a party to obey the law or comply with an agreement . . . does not give the restrained party fair notice of what conduct will risk

contempt." *Epstein Family Partnership v. Kmart Corp.*, 13 F.3d 762, 771 (3d. Cir. 1994). Quality King's reliance upon the rule of *Epstein* is misplaced. There, the burden arose from the language of the injunction itself. Here, in contrast, it is not the vagueness of the injunction that gives rise to a burden. On the contrary, the injunction describes the enjoined conduct quite clearly. Instead, the burden arises from the difficulty of complying with the injunction, that is, the time and expense associated with determining the origin of L'anza products before purchasing them. However, the injunction provides a mechanism for verifying that L'anza products are not illegally imported, according to which

> Quality King may send to L'anza any L'anza product in its original carton that it intends to buy, sell or dispose of and L'anza shall inform Quality King within ten days of receipt as to whether the particular L'anza product had previously been sold by L'anza within the United States.

Furthermore, Quality King has cited no authority for the proposition that an injunction is invalid if compliance is costly. Thus, we reject Quality King's argument that the injunction should be lifted because it is unduly burdensome.

CONCLUSION

Quality King seeks reversal of the district court's grant of summary judgment and injunction in favor of L'anza Research International, arguing that L'anza's action under 17 U.S.C. § 602(a) is barred by the first sale doctrine and unclean hands. Moreover, it argues, L'anza did not establish that Quality King actually violated § 602(a). Finally, Quality King asserts that this court should reverse because L'anza lacks standing and the injunction is unduly burdensome.

We hold that the first sale doctrine does not bar liability under § 602(a) in this case. To hold otherwise would violate

congressional intent. We also reject Quality King's arguments that 1) it did not violate § 602(a) in the first place; 2) L'anza's action is barred by unclean hands; and 3) L'anza lacked standing. Finally, we reject Quality King's arguments concerning the scope of the injunction.

AFFIRMED.

APPENDIX B

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

FILED
JUL 7, 1995
Clerk, U.S. District Court
Central District of California
By Deputy

THIS CONSTITUTES NOTICE OF ENTRY
AS REQUIRED BY FRCP, RULE 77(d).

L'ANZA RESEARCH INTERNATIONAL,
Plaintiff,
v.
QUALITY KING, ET AL.,
Defendants.

CV 94-0841 JSL

AMENDED ORDER

The motion of plaintiff L'Anza Research International, Inc. (hereinafter "L'Anza") for an order specifying issues that exist without substantial controversy as to defendant Quality King Distributors, Inc., came for hearing regularly on April 17, 1995. On May 4, 1995, the Court entered an order granting plaintiff's motion. In the order, the Court specified that L'Anza owns all right, title, and interest in U.S. copyright registration No. TXU593-178, and that the first sale doctrine in 17 U.S.C. § 109(a) does not bar liability as to Quality King, if otherwise proven in this case. The following amended order explains the Court's rationale for its holding.

I. BACKGROUND

Plaintiff L'Anza, a California corporation, manufactures hair care products in the United States and distributes them both in the United States and abroad. For consumers in the United States, L'Anza sells its products exclusively through certain authorized domestic distributors, which include professional beauty salons, professional barber salons, and colleges. For consumers outside the United States, L'Anza, sells its products to foreign distributors at a discount approximately 35% to 40% below the prices charged to the domestic distributors. According to the distribution agreements, L'Anza authorizes the foreign distributors to sell the products in certain defined geographical areas outside the United States and does not authorize them to import any of the products into the United States.

On January 7, 1994, L'Anza obtained a copyright on the instructions and other visual material on the labels of its various products under registration No. TXU593-178. The copyrighted material covered by this registration include some of the products that are the subject of this lawsuit: Super Quatre, Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisturing Treatment, Curls & Color Moisturing Shampoo, Re-Balance Leave-In Conditioner, Re-Balance Shampoo Plus, and Re-Balance Styling Foam.

L'Anza has sued defendant Quality King, Inc. (hereinafter "Quality King"), a New York corporation, for importing and/or selling L'Anza products in violation of L'Anza's exclusive copyright distribution rights. L'Anza alleges that hair care products that were sold to its United Kingdom distributor, Planetary Eco, Ltd. (hereinafter "Planetary") for shipment to another distributor, L. Intertrade Limited (hereinafter "L. Intertrade"), for sale in Malta, were imported to the United

States in violation of the distribution agreement between Planetary Eco and L. Intertrade. L'Anza contends that some of the products that were sold to L. Intertrade were imported into the United States where they passed through the stream of commerce until they were purchased by Quality King in the ordinary course of its business. Quality King concedes that it purchases L'Anza products in the course of its business but denies that it violated any copyright laws.

Specifically, Quality King asserts that the "first sale" defense embodied in 17 U.S.C. § 109(a) provides a complete defense to any copyright infringement action against it. The Court disagrees with this assertion. If the L'Anza goods sold by Quality King are traceable to goods imported into the United States without L'Anza's authorization and their labels are covered by plaintiff's copyright registration, defendant Quality King is liable for copyright infringement under 17 U.S.C. § 602(a) and the first sale defense does not apply.

II. ANALYSIS

A. The First Sale Doctrine and the Importation Right

The owner of a registered copyright has the "exclusive rights" to authorize or distribute copes of a copyrighted work to the public. 17 U.S.C. § 106(3);[1]

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[1] Section 106 provides in relevant part:

> Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and authorize any of the following:
>
> * * *
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

Parfums Givenchy v. Drug Emporium, 38 F.3d 477, 480 (9th Cir. 1994), *cert. denied*, 1995 WL 36258 (Mar. 6, 1995). Under the "first sale" doctrine, however, a sale of a copy "lawfully made under this title" terminates the copyright holder's authority to interfere with subsequent sales or distribution of that particular copy. 17 U.S.C. § 109(a).[2] Section 109(a) thus provides a defense to liability under § 106(3) to lawful purchasers of copies of copyrighted materials so long as the copies were "lawfully made under this title." *Parfums Givenchy*, 38 F.3d at 480.

Section 602(a) provides that the unauthorized importation of copies of U.S. copyrighted materials acquired abroad is an infringement of the exclusive distribution rights provided in § 106. 17 U.S.C. § 602(a).[3] This section "deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785.

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2 Section 109(a) provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

3 Section 602(a) states:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonographs of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106.

Several courts, including the Ninth Circuit, have analyzed the relationship between the first sale defense in § 109(a), the importation right in § 602(a), and the exclusive distribution right in § 106(3). In the context where the infringing works were manufactured and sold abroad, the Ninth Circuit has held that "[t]he words 'lawfully made under this title' in § 109(a) grant first sale protection only to copies legally made and sold in the United States." *Parfums Givenchy, supra*, 38 F.3d at 481 (holding that retailer who bought infringing products manufactured and sold abroad had no first sale defense against § 602(a)), *quoting BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 112 S.Ct. 2997 (1992) (holding that defendant who manufactured and sold copyrighted works abroad had no first sale defense against § 602(a)).

In this case, the copyrighted works that were imported into the United States without L'Anza's authorization were manufactured in the United States and then sold to a foreign distributor. The Ninth Circuit has declined to consider whether the first sale defense applies in a case involving these facts. *See BMG Music, supra*, 952 F.2d at 319 n.3.[4] Because L'Anza's copyrighted works were

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4 The Third Circuit decided this issue in *Sebastian International v. Consumer Contacts (PTY)*, 847 F.2d 1093 (3d Cir. 1988). In *Sebastian*, the Third Circuit held that a United States manufacturer that had sold its goods with copyrighted labels to a foreign distributor was barred by the first sale doctrine from establishing infringement through an unauthorized importation. Much like this case, the plaintiff in *Sebastian* manufactured its products in the United States and sold and shipped them to a foreign distributor, who then shipped the goods back to the United States in violation of its distribution agreement. *Id.* at 1094. The Third Circuit rejected the idea that the place of sale is a critical factor in determining whether § 602(a) governs and found that a first sale had occurred that extinguished any right later to control importation of the copies. *Id.* at 1098-99.

sold to a foreign distributor for distribution in foreign markets, the Court finds that the sale occurred outside the United States.[5] The Court holds that, regardless of where the copies were manufactured originally, if the copies are sold outside the United States (or, in § 602(a) terms, "acquired abroad"), the first sale defense does not extinguish the right later to prohibit unauthorized importation of those copies. To hold otherwise would undermine the stated purpose of § 602, which is to provide copyright owners with the right to prevent the unauthorized importation of articles acquired abroad that were initially manufactured under the copyright owner's authority. *See* 17 U.S.C. § 602(a).

The rationale provided by the district court in *Parfums Givenchy, Inc. v. C & C Beauty Sales*, 832 F. Supp. 1378 1390-91 (C.D. Cal. 1993), for its holding that the first sale defense does not apply for works manufactured and sold abroad applies equally in this case. The district court in *Parfums Givency* explained that allowing the first sale doctrine to be a valid defense for goods manufactured and sold abroad would undermine the purpose of § 602 and the principle that a copyright owner is entitled to realize the full value of

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5 In this case, defendant argues that the goods were manufactured and sold in the United States and therefore the first sale doctrine provides a defense. Plaintiff argues that the goods were manufactured in the United States but sold abroad, and therefore the first sale doctrine does not apply. To determine where the sale occurred, the parties rely in part on analyses about when title to the goods passed between L'Anza and its foreign distributor, Planetary Eco. The Court believes that analysis to be irrelevant to the decision. When title passes does not necessarily indicate a "sale" for the purposes of the "first sale" defense to copyright infringement. *See Cosmair, Inc. v. Dynamite Enterprises*, 1985 WL 2209, *3 (S.D. Fla. 1985) ("[I]t is not clear whether the passing of title rather than the intent of the parties is determinative of whether there was a sale within the United States. . . .").

each copy upon its disposition.[6] *Parfums Givenchy*, 832 F. Supp. at 1390-91. Where goods are manufactured and sold in the United States, the copyright owner has released voluntarily the copies into the United States market, and has received the full value to which she or he is entitled for them. *Id.* Likewise, where the copies are sold to foreign markets at a lower price for legitimate business reasons, the copyright owner also has received the full value of those copies. If, however, the same copies sold abroad at lower prices are imported into the United States and now compete with the United States priced copies, the copyright owner is prevented from receiving the full value to which she or he is entitled for a copy initially released in the United States. *Id.* This unauthorized importation effectively circumvents the copyright owner's domestic distribution right. *Id.*

In this case, although the works were manufactured in the United States and sold abroad, the same rationale applies. The initial placement of the copy in a certain market should determine where the product is "sold" or "acquired" for purposes of § 602(a). The copies L'Anza sold to its U.K. distributor were intended to be distributed to foreign markets and never were intended to be returned to the United States market. If L'Anza is forced to compete with those copies in the United States, its domestic distribution rights are circumvented just as completely as if the copies had been both manufactured and sold abroad and then imported without authorization. No logical distinction exists between the *Parfum Givenchy* case and this one.

Congress enacted § 602(a) to provide a copyright owner protection "where the copies or phonorecords

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6 The *Givenchy* court defines "full value" as "the price at which the copyright owner is willing to sell copies of his work." *Givenchy*, 832 F. Supp. at 1390.

were lawfully made but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights. As already said, the mere act of importation in this situation would constitute an act of infringement and could be enjoined." H.R. Rep. No. 1476 at 170, *reprinted in* 1976 U.S.C.C.A.N. at 5786. The legislative history makes no reference to the place of manufacture of the goods. Instead, the emphasis is on "the mere act of importation" of copies whose distribution would infringe the copyright owner's exclusive rights.

The proper construction of § 602(a), therefore, is that Congress intended to protect the domestic copyright holder's right to distribute copies in the United States without having to compete with "piratical" copies or "lawfully made" copies imported without the copyright holder's authority. Congress could not have envisioned that a law passed to protect the domestic income of a copyright owner and encourage the influx of foreign currency could be circumvented by the copyright holder's decision to manufacture the copy in the United States rather than abroad. Congress also could not have envisioned that the first sale doctrine could create a situation where the copyright holder must compete in the United States against its own copies or refrain from selling its copies at different prices for different markets.

The recent Ninth Circuit case, *Sebastian International v. Longs Drug Stores*, 95 D.A.R. 5848 (9th Cir. May 9, 1995), which holds that the first sale doctrine prevents liability for the resale of a trademarked product, is inapposite. Although *Sebastian International* also involved the sale of "gray market" goods, plaintiffs in that case filed a trademark infringement claim. The Ninth Circuit analyzed the purpose of trademark protection (protecting against the likelihood of consumer confusion), and held that nothing in the Lanham Act suggested that Congress intended to provide producers

of trademarked products a method to control the resale of its products or to circumvent the first sale rule. *Id.* at 5848-49. Copyright protection, on the contrary, specifically contemplates protection of the distribution of copyrighted works through the exclusive distribution right of § 106(3) as well as the importation right of § 602(a). The Ninth Circuit's discussion of the relationship between the first sale doctrine and the trademark laws has little relevance to the relationship between the first sale doctrine and the copyright laws.

Sales abroad of foreign manufactured U.S. copyrighted material do not terminate the U.S. copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a). *Parfums Givenchy, surpa*, 38 F.3d at 482 n.8. Sales abroad of domestic manufactured U.S. copyrighted material should be given no less protection. Nothing in the legislative history of § 602(a) or the language of the statute supports differential treatment of copies depending on the location of their manufacture.

II. CONCLUSION

Having reviewed the papers filed in connection with this matter, having heard oral argument, and being fully apprised of the relevant facts and law,

IT IS HEREBY ORDERED that the motion of plaintiff L'Anza Research International, Inc. be GRANTED. The Court finds the following issues to exist without substantial controversy:

(1) L'Anza owns all right, title, and interest in the United States copyright registration No. TXU593-178, effective January 7, 1994.

(2) The first sale defense in 17 U.S.C. § 109(a) of the Copyright Act does not bar liability as to Quality King in this case.

IT IS SO ORDERED.

DATED: 7/6/95

/s/ J. Spencer Letts
J. Spencer Letts
United States District Judge

APPENDIX C

NOT FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
DEC 16, 1996
Cathy A. Catterson, Clerk
U.S. COURT OF APPEALS

L'Anza Research International, Inc.,
Plaintiff-Appellee,
v.
Quality King Distributors, Inc.,
Defendant-Appellant.

NO. 95-56447
DC NO. CV-94-0841-JSL

ORDER

Before: D.W. NELSON, T.G. NELSON, and THOMAS, Circuit Judges.

The members of the panel that decided this case voted unanimously to deny the petition for rehearing. Judges T.G. Nelson and Thomas voted to reject the suggestion for rehearing en banc and Judge D.W. Nelson so recommends.

The full court has been advised of the suggestion for rehearing en banc and no active judge has requested a vote on whether to rehear the matter en banc. (Fed.R. App. P. 35.)

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

APPENDIX D

UNITED STATES COURT OF APPEALS
THIRD CIRCUIT

No. 87-5439
(cite as 847 F.2d 1093 (3rd Cir. 1988)

SEBASTIAN INTERNATIONAL, INC.
v.
CONSUMER CONTACTS (PTY) LTD.,
d/b/a 3-D Marketing Services, Hiltexan Ltd.,
Fabric Limited, Quality King Manufacturing, Inc.
and Quality King Distributors, Inc.

Argued Jan. 19, 1988
Decided May 25, 1988

Before GIBBONS, Chief Judge, WEIS and GREENBERG, Circuit Judges.[7]

OPINION OF THE COURT

WEIS, Circuit Judge.

This case comes to us in the guise of an alleged copyright infringement but, in reality, is an attempt by a domestic manufacturer to prevent the importation of its own products by the "gray market." We conclude that, having sold its goods with copyrighted labels to foreign distributors, the manufacturer is barred by the first sale doctrine from establishing infringement through an unauthorized importation. Consequently, we will vacate a preliminary injunction enjoining defendants from

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7 At the time of oral argument on this case, the Honorable Joseph F. Weis, Jr., was an active circuit judge. Since that time, Judge Weis has assumed senior status.

distributing within the United States, products that plaintiff had manufactured in this country and then exported.

Plaintiff, Sebastian International, is a California corporation which manufactures and markets personal care beauty supplies. The two items at issue here, WET and SHPRITZ FORTE, carry copyrights for the text and artistic content of their labels. Sebastian maintains that its marketing policy restricts retail sales to professional salons. This strategy is designed to establish Sebastian's image, enhance its reputation, and foster its commercial success.

In 1986, Sebastian entered into an oral contract with defendant Consumer Contacts (PTY), Ltd. d/b/a 3-D Marketing Services, in which 3-D agreed to distribute Sebastian beauty products to professional hair styling salons in South Africa, but not elsewhere. Sebastian shipped four containers of WET, SHPRITZ FORTE and other products valued at approximately $200,000 to 3-D in Edenvale, South Africa in January 1987. 3-D then reshipped the unopened containers back to the United States where customs released them on May 14, 1987.

One week later, Sebastian, alleging breach of contract, sought a preliminary injunction against distribution of the products in the United States. The district court granted a temporary restraining order and scheduled a hearing. Later Sebastian amended its complaint to allege that defendant Fabric, Ltd. had possession of the products, and that the copyrights on WET and SHPRITZ FORTE labels were being infringed.

When it became evident that Fabric had not known of the contractual limitations between Sebastian and 3-D, the district court lifted its initial restraining order. The court concluded, however, that the two Sebastian labels came within the purview of the Copyright Act and issued a preliminary injunction against infringement.

As the district court read the pertinent provisions of the Copyright Act of 1976, 17 U.S.C. §§ 106(3), 109(a), 602(a), the copyright holder has a right to control importation of copies, regardless of where they were made and despite the occurrence of a "first sale." After surveying the limited case law and the legislative history, the court understood the 1976 Act to create two types of distribution rights for copies; one tied to the act of vending and the other to the act of importation. In the court's view, vending was limited by the first sale doctrine; importation was not. Thus, Sebastian's right to control importation was "not extinguished when those goods were first sold regardless of where plaintiff's products were first sold or first manufactured." *Sebastian Int'l., Inc. v. Consumer Contact (PTY) Ltd.*, 664 F.Supp. 909, 920 (D.N.J.1987).

Defendants appeal the issuance of the preliminary injunction and present two issues for review. First, they contend that Sebastian did not demonstrate irreparable harm. Second, they argue that the first sale doctrine extinguishes the claim for copyright infringement. Defendants do not presently challenge the district court's determination that the labels had valid copyrights, having reserved that issue in the district court until the hearing on the permanent injunction. Consequently, that issue is not before us and in view of our disposition of this case, we do not discuss the irreparable injury aspect.

I

The Copyright Act is based on article I, section 8 of the United States Constitution, which grants Congress power to "Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." These monopoly privileges are

"neither unlimited nor primarily designed to provide a special private benefit." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984). Instead, they promote an important public purpose by encouraging the creative activity of authors and by allowing public access to "the products of their genius after the limited period of exclusive control has expired." *Id.*

The copyright statutes have been amended repeatedly in an attempt to balance the authors' interest in the control and exploitation of their writings with society's competing stake in the free flow of ideas, information and commerce. *Id.* Ultimately, the copyright law regards financial reward to the owner as a secondary consideration.

The Copyright Act of 1976, 17 U.S.C. §§ 101-810 (1982) (repealing Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075), contains three sections relevant to the issues presented here. The first, 17 U.S.C. § 106, states:

> "Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and authorize any of the following:
> (1) to reproduce the copyrighted work in copies . . .
> * * * * * *
> (3) to distribute copies . . . to the public by sale or other transfer of ownership, or by rental, lease, or lending . . ."

The distribution rights granted by subsection (3) are limited by the second provision, section 109(a), known as the "first sale" rule, which provides in pertinent part: "Notwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled,

without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy. . . ."

The third provision, section 602(a), addresses importation and reads: "Importation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106. . . ."

A.

The first sale doctrine has a venerable lineage. The Supreme Court construed the right of exclusive sale held by copyright owners in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 28 S.Ct. 722, 52 L.Ed. 1086 (1908), and decided that it did not create an additional prerogative enabling the holder to restrict future resales. The Court refused to find infringement when a retailer sold a novel at a price below that listed in the copyright notice, observing that copyright protection is wholly statutory and independent of any contractual rights. Because it had previously exercised the right to vend copies, the copyright owner could not retain any further control over subsequent sales. The Court phrased the issue in general terms, answering in the negative the question whether "the sole right to vend . . . secure[s] to the owner of the copyright the right, after a sale of the book to a purchaser, to restrict future sales of the book at retail . . . ?" *Id.* at 350, 28 S.Ct. at 726.

In *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir.1984) we commented that section 109(a) "is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material. The first sale doctrine prevents the copyright owner from controlling the future

transfer of a particular copy once its material ownership has been transferred." *Id.* at 159 (citation omitted). *See also Columbia Pictures Indus. v. Aveco, Inc.*, 800 F.2d 59, 64 (3d Cir.1986).

Similarly, the Court of Appeals for the Fifth Circuit wrote in *American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir.1978), "[a]fter the first sale of a copy the copyright holder has no control over the occurrence or conditions of further sales of it. . . . The first sale thus extinguishes the copyright holder's ability to control the course of copies placed in the stream of commerce."

In describing the scope of section 109, the Senate Judiciary Committee reported:

> "Section 109(a) restates and confirms the principle that where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present law, the copyright owner's exclusive right of public distribution would have no effect upon anyone who owns 'a particular copy or phonorecord lawfully made under this title' and who wishes to transfer it to someone else or to destroy it."

S.Rep. No. 983, 93d Cong., 2d Sess. 131 (1974), *reprinted in* 13 Omnibus Copyright Revision Legislative History (1977).

The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property. *See Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F.Supp. 881, 883 (E.D.Pa. 1964);

Colby, *The First Sale Doctrine — The Defense That Never Was?*, 32 J. Copyright Soc'y U.S.A. 77, 89 (1984). *See also* H.R.Rep. No. 987, 98th Cong., 2d Sess. 2, *reprinted in* 1984 U.S. Code Cong. & Admin.News 2898, 2899 ("the first sale doctrine has its roots in the English common law rule against restraints on alienation of property"); 2 M. Nimmer, *The Law of Copyright* § 8.12 (1987).

There is, however, an economic reason for the rule as well. As the district court said in *Burke & Van Heusen*, "the ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use." 233 F.Supp. at 884. *See Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir.1963). *See also Cosmair, Inc. v. Dynamite Enters. Corp.*, No. 85-0651, slip op. (S.D.Fla. Apr. 9, 1985) (1985 WL 2209).

B.

At first glance, section 602(a) — the importation clause — appears to clash with the first sale doctrine. We conclude, nonetheless, that the two provisions were intended to function interdependently and may be read in harmony with each other.

Section 602(a) creates an infringement of the exclusive right of distribution when copies acquired outside the United States are imported into this country without the copyright owner's permission. Congress added this section to the Copyright Act in 1976, responding to copyright holders who sought protection from unauthorized importation of copies.

Preliminary discussions leading to general revision of the copyright law continued for over twenty years, incorporated a series of major studies, and involved numerous meetings with representatives of interested parties. *See Mills Music, Inc. v. Snyder*, 469 U.S. 153, 159-61, 105 S.Ct. 638, 642-43, 83 L.Ed.2d 556 (1985). The hearings revealed the copyright owners' desire to prevent importation not only of "piratical copies" made without permission, but also of copies made by licensees in foreign countries. *See* Tyson & Parker, *Parallel Importation of Copyrighted Phonorecords*, 10 N.C.J. Int'l L. & Com. Reg. 397, 402-206 (1985); Note, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U.J.Int'l L. & Pol. 113, 134-137 (1984).

The House Judiciary Committee acknowledged this concern when it explained, "[s]ection 602 . . . deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made." H.R.Rep. No. 1476, 94th Cong., 2d Sess. 169, *reprinted in* 1976 U.S. Code Cong. & Admin.News 5659, 5785. Only the second situation is presented here.

C.

The interrelationship between sections 602(a) and 109(a) may be interpreted in two possible ways, although neither is conclusively supported by the statutory language or legislative history. The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another distinct right — one that frees them from the first sale right of section 109(a), which otherwise limits section 106(3), and

allows them to prevent the unauthorized importation of copyrighted copies. The district court adopted that view in this case.

The second interpretation reconciles sections 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves only as a specific example of those rights subject still to the first sale limitation. This analysis poses a problem in the case of unauthorized imports of copies made abroad pursuant to a license restricting sales to a particular country. Although the domestic copyright holder undoubtedly would prefer to block such importation, the statutory language does not expressly authorize such control.

Early in the drafting deliberations for the 1976 Act, the Copyright Office argued against imposing "a territorial restriction in a private contract upon third parties with no knowledge of the agreement." Tyson & Parker, *supra* at 403 (quoting Staff of House Comm. on Copyright Law Revisions, 87th Cong., lst Sess., Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law (Register's Report) 126 (Comm. Print 1961). The Office, however, later changed its position on the scope of section 602(a), finally agreeing that both authorized and unauthorized copies should be covered. Tyson & Paker, *supra* at 404.

The appellate courts have had little occasion to analyze the interplay between the first sale doctrine of section 109(a) and the importation right of section 602(a), but the district courts have struggled with the problem in a number of situations. In *Columbia Broadcasting Sys. v. Scorpio Music Distrib.*, 569 F.Supp. 47 (E.D.Pa.1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir.1984), the district court found infringement when copies, produce and sold exclusively in the Philippines under a license agreement, were imported into the

United States — where the plaintiff owned the sole distribution rights. The district court concluded that the words "lawfully made under this title" in section 109(a) grant first sale protection only to copies legally made and sold in the United States. *Id.* at 49.

IN *T.B. Harms Co. v. Jem Records, Inc.*, 655 F.Supp. 1575 (D.N.J.1987), the court also found infringement when phonorecords manufactured under license in New Zealand were imported into the United States. The court reached that conclusion despite the compulsory licensing provision applicable to phonorecords, commenting that the preliminary negotiations behind sections 602(a) and 115 did not furnish a reliable gauge of congressional intent. In particular, the court was wary of statements made by special interest groups and was reluctant to consider such views as expressions of the congressional intent shaping the Copyright Act.

A similar problem arose in *Hearst Corp. v. Stark*, 639 F.Supp. 970 (N.D.Cal.1986), when books lawfully made in England were imported into the United States, where the plaintiff held the copyrights. The district court, finding an infringement, decided that the first sale doctrine did not modify the importation restraints of section 602(a). *Id.* at 976-77.

In *Nintendo of America, Inc. v. Elcon Indus.*, 564 F.Supp. 937 (E.D.Mich.1982), the court enjoined the defendants from distributing electronic audio-visual games made in Japan under a license expressly limited to the territories of Japan. The agreement prohibited importation into the United States, where the plaintiff owned all the distribution rights under copyright. *But Cf. Neutrogena Corp. v. United States*, No. 2:88-0566-1, slip op. (D.S.C. Apr. 5, 1988) (first sale defense available where goods manufactured in United States and sold to defendant by third party); *Cosmair, Inc.*, slip op.,

(section 109 limits section 602 where products manufactured in the United States and re-imported).

Scorpio and *Harms*, although not binding on us, demonstrate a significant difference from the factual situation presented here. In those district court cases, the copies were produced abroad and the sales occurred overseas. The courts reasoned that the foreign origin of both manufacture and sale made the first sale doctrine inapplicable. However valid that interpretation of the "lawfully made under this title" language of section 109(a) — and we specifically do not pass upon it in this case — it does not affect our decision here.[8]

II.

The facts, seen here in the context of the first sale doctrine, are not complex. We do not confront a license agreement or copies produced in a foreign country under that agreement by someone other than the owner; instead, this case centers on actual copies of labels printed in this country by the copyright owner. Sebastian produced and sold the same copies which it now seeks to control.

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8 We confess some uneasiness with this construction of "lawfully made" because it does not fit comfortably within the scheme of the Copyright Act. When Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern.

Furthermore, we note that it is trademark law that emphasizes the source of origin; copyright law focuses instead on originality of authorship. The Supreme Court has cautioned against applying doctrine formulated in one area to the other. *See Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 439 n. 19, 104 S.Ct. 774, 787 n. 19, 78 L.Ed.2d 574 (1984).

Under the first sale doctrine, when plaintiff made and then sold its copies, it relinquished all further rights "to sell or otherwise dispose of possession of that copy." Unquestionably that includes any right to claim infringement of the section 106(3) distributive rights for copies made and sold in the United States. With respect to future distribution of those copies in this country,[9] clearly the copyright owner already has received its reward through the purchase price.

Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive "a more adequate award" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Consequently, we agree with the district court that the place of sale is not the critical factor in determining whether section 602(a) governs. We differ, however, with the district court's finding of infringement because, in our view, a first sale by the copyright owner extinguishes any right later to control importation of those copies.

Section 602(a) does not purport to create a right in addition to those conferred by section 106(3), but states that unauthorized importation is an infringement of "the

9 Plaintiff concedes this point in its brief. "Sebastian submits that § 602(a) prohibits importation into the United States of products incorporating copyright materials *irrespective of where the copies were manufactured*, if as here (i) the importation is without the authority of the United states copyright owner and (ii) the "first sale" of the products does not occur in the United States." Br. for Appellee at 9.

exclusive [section 106(3)] right to distribute copies." Because that exclusive right is specifically limited by the first sale provisions of § 109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.[10] The preliminary injunction was granted on the basis of an erroneous reading of the law and therefore must be vacated.

Although this case turns purely on copyright law, we recognize that the underlying "gray market," or "parallel importing," issues really are dominant. Various economic factors — including the manipulation of global currency standards — encourage transactions in which goods are produced in this country, shipped and sold to foreign concerns, and then returned to the United States for resale at less than the domestic prices.

This practice has led to complaints by manufacturers seeking a fair return on their costs of promotion and servicing of warranties in this country. Equally vocal are consumer advocates asserting the desirability of access to identical goods at lower costs. Because contractual remedies have proved inadequate, *see Johnson & Johnson Products v. DAL Int'l Trading Co.*, 798 F.2d 100 (3d Cir.1986), domestic manufacturers now invoke the copyright law to advance their economic interests. This twist has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that the controversy over "gray market" goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.

10 This situation differs from that in which a licensee manufactures the copy. In that instance, the copyright holder does not own the tangible copy.

The order of the district court granting a preliminary injunction will be vacated, and the case will be remanded to the district court for disposition of the remaining issues.

APPENDIX E

Copyright Act of 1976
Title 17 U.S.C.

§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly, and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

§ 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on —

(1) the date of the publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A(d)(2)(A), or

(2) the date of the receipt of actual notice served under section 104A(d)(2)(B),
whichever occurs first.

§ 602. Infringing importation of copies or phonorecords

(a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to —

(1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;

(2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or

(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

Supreme Court, U.S.
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No. 96-1470

In The

Supreme Court of the United States

October Term, 1996

QUALITY KING DISTRIBUTORS, INC., a New York corporation,

Petitioner,

vs.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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CORPORATE DISCLOSURE STATEMENT PURSUANT TO RULE 29.6 OF THE RULES OF THE SUPREME COURT

Respondent L'anza Research International, Inc., a California corporation, has no parent company or nonwholly-owned subsidiary.

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2 Goldstein, *Copyright*, § 5.6.1.2 "Limits on the First Sale Exemption" (2d ed. 1996) 18, 19

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APPENDIX

Appendix A — Satisfaction of Judgment of the United States District Court for the Central District of California, Western Division Filed March 25, 1997 ..... 1a

Appendix B — Judgment on Special Verdict of the Superior Court of the State of California for the County of Los Angeles Filed August 30, 1995 ..... 3a

OPINIONS BELOW

Petitioner Quality King Distributors, Inc. ("Quality King"), a New York corporation, has attached copies of the decisions of the District Court and the United States Court of Appeals for the Ninth Circuit in *L'anza Research International, Inc. v. Quality King Distributors, Inc.*, to its petition for writ of certiorari as appendices A and B, respectively. As more fully discussed within, Quality King has paid the judgment and has required a satisfaction of judgment, and a copy of that satisfaction of judgment is reprinted as Appendix A. As also more fully discussed within, judgment in the state court action, captioned *L'anza Research International, Inc., a California corporation, Plaintiff v. Quality King, Inc., a New York corporation, et al., Defendants*, Los Angeles County Superior Court Case No. BC 089231, was filed on August 30, 1995, and that judgment included a permanent injunction and is reprinted at Appendix B.[1]

STATUTORY PROVISIONS INVOLVED

Respondent L'anza Research International, Inc. ("L'anza") concurs with Quality King that its petition concerns the provisions of the Copyright Act of 1976, 17 U.S.C. §§ 106, 109(a), and 602(a), cited in the petition. However, L'anza contends that 17 U.S.C. §§ 501 and 603 are also involved.

The Copyright Act of 1976, 17 U.S.C. § 501(a) provides:

> (a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the

1. The *L'anza* state court judgment is currently on appeal, California Court of Appeal, Second District, Case No. 2d Civil B097409.

United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. For purposes of this chapter (other than section 506), any reference to copyright shall be deemed to include the rights conferred by section 106A(a). As used in this subsection, the term "anyone" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

The Copyright Act of 1976, 17 U.S.C. § 603, as amended in 1996, provides:

(a) The Secretary of the Treasury and the United States Postal Service shall separately or jointly make regulations for the enforcement of the provisions of this title prohibiting importation.

(b) These regulations may require, as a condition, for the exclusion of articles under section 602 —

(1) that the person seeking exclusion obtain a court order enjoining importation of the articles; or

(2) that the person seeking exclusion furnish proof, of a specified nature and in accordance with prescribed procedures, that the copyright in which such person claims an interest is valid and that the importation would violate the prohibition in section 602; the person seeking exclusion may also be required to post a surety bond for any injury that may result if the detention or exclusion of the articles proves to be unjustified.

(c) Articles imported in violation of the importation prohibitions of this title are subject to seizure and forfeiture in the same manner as property imported in violation of the customs revenue laws. Forfeited articles shall be destroyed as directed by the Secretary of the Treasury or the court, as the case may be.

STATEMENT OF THE CASE

This case concerns the ability of a copyright holder to control the distribution of its copyrighted products when those products have been acquired outside of the United States and imported into the United States without the copyright holder's permission. The L'anza products at issue were acquired outside of the United States and imported into the United States without L'anza's permission and distributed by Quality King. *L'anza Research Intern. v. Quality King Distributors*, 98 F.3d 1109, 1118 (9th Cir. 1996) (and appendices to petition for writ of certiorari ("Pet. App.") at A17). As a result, L'anza sued Quality King for copyright infringement under 17 U.S.C. § 602(a).

A. Material Facts.

L'anza formulates and distributes high quality professional hair care products which are sold exclusively through professional beauty salons and colleges and professional barber salons and colleges ("the authorized channels of distribution"). *See* 98 F.3d at 1111 (Pet. App. at A2). L'anza has advertised extensively in the United States market to create and maintain a reputation for selling exclusive high quality products which are only available through the authorized channels of distribution.

L'anza assures that its products are sold by its distributors in the United States solely in their own territories and solely through the authorized channels of distribution by including provisions in its distributorship contracts limiting the distributors' right to distribute to certain identified geographical areas within the United States and only through the authorized channels of distribution. *Id.* L'anza also sells its products abroad through master distributors whose distribution areas are limited to defined geographical areas outside of the United States. *Id.*

L'anza has never authorized any party at any time to import into the United States any of its products that have been sold abroad. *See id.* Moreover, L'anza discounts its sales abroad to its foreign master distributors by 35% to 40% below the level of prices that it charges to its U.S. distributors. *Id.* The discount is a reflection of the fact that L'anza's advertising focuses on the United States, and that through L'anza's advertising and promotional activities in the United States, it has already established a high quality distribution network in the United States.

Foreign distributors, on the other hand, have to establish their own channels of distribution and do not generally receive the benefit of L'anza's advertising and promotional activities in

the United States. *Id.* Consequently, the prices to these foreign master distributors do not reflect L'anza's advertising activities and pre-established channels of distribution in the United States. *See id.* Therefore, if and when a foreign distributor or someone who has purchased L'anza products from a foreign distributor imports L'anza products into the United States, L'anza is being deprived of its right to obtain the full value of its copyright with regard to sales in the United States.

In February 1994, L'anza discovered that its products were being sold at Vassey Drugs in Carmel, California. *Id.* Since every shipment of L'anza products includes products marked to allow tracing, L'anza was able to determine that the products being sold at Vassey Drugs had been purchased from L'Intertrade, a distributor in Malta, and imported without L'anza's authorization by Quality King. *Id.* The L'anza products had been manufactured in the United States and then sold through Planetary Eco, L'anza's distributor in the United Kingdom, to L'Intertrade. *Id.* L'anza had sold the products at a substantial discount with the understanding that they would be distributed in Malta and possibly Libya. *Id.* Instead, L'Intertrade sold the products to Quality King, which purchased in their entirety the three shipments that had been sent to the United Kingdom and imported the products back into the United States without L'anza's permission. *Id.* at 1111-1112 (*Id.* at A2-A3).

L'anza filed a complaint against Quality King and others who were selling L'anza products purchased from Quality King alleging that they had violated 17 U.S.C. § 602(a) by importing products to which L'anza owned the copyright without L'anza's permission. *Id.* Quality King responded, *inter alia*, by asserting the affirmative defense of the first sale doctrine of 17 U.S.C. § 109(a). *Id.* The district court granted L'anza's motion for an order specifying issues that exist without substantial controversy on May 4, 1995. *Id.*

In the interim, a state court action filed by L'anza against Quality King for business torts under California law, captioned *L'anza Research International, Inc., a California corporation, Plaintiff v. Quality King, Inc., a New York corporation, et al., Defendants*, Los Angeles County Superior Court Case No. BC089231, proceeded to trial on April 14, 1995. *Id.* at n.2. On May 18, 1995, the jury in the state court action returned its verdict in favor of L'anza and against Quality King awarding L'anza $480,000 in damages and finding by *clear and convincing evidence* that Quality King had acted with malice or fraud against L'anza. *See id.* The jury also rejected Quality King's affirmative defense that Quality King was the competitor of L'anza, and thus Quality King's conduct was privileged. (Appendices to opposition ("Opp. App.") at 7a.) On May 23, 1995, the jury returned its special verdict awarding L'anza $3.4 million in damages against Quality King. (*Id.* at 9a-10a.) L'anza subsequently was granted a permanent injunction, *inter alia*, as follows:

> IT IS FURTHER ORDERED, ADJUDGED AND DECREED that defendant Quality King Distributors, Inc., its agents, servants, employees, principals, subsidiaries, affiliates, or all those in active concert or participation with it are hereby enjoined and prohibited from purchasing, offering to sell, selling or in any way selling or transferring to others any L'anza hair care products that were originally sold by L'anza within the United States.

(*Id.* at 11a.)

On July 25, 1995, the district court also granted L'anza's motion for permanent injunction enjoining Quality King from importing and selling identified copyrighted L'anza products

that had been sold previously outside of the United States. 98 F.3d at 1112 (Pet. App. at A3).

The district court entered judgment in the amount of $132,616 in damages in favor of L'anza on September 29, 1995. *Id.* On or about March 12, 1997, Quality King paid the judgment and required a satisfaction of judgment. (Opp. App. at 1a-2a.) Quality King's petition was docketed on March 19, 1997.

REASONS FOR DENYING THE WRIT

I.

THE QUESTION RAISED BY THE PETITION IS MOOT.

The rule is well established that the United States Supreme Court may not decide moot questions or decide issues that cannot affect the result of the case. *United States v. Alaska S.S. Co.*, 253 U.S. 113, 116, 40 S. Ct. 448, 64 L. Ed. 808 (1920). As noted, on or before March 12, 1997, Quality King paid the judgment in this action, along with accrued interest, and Quality King required a satisfaction of judgment for filing with the court.[2] (Opp. App. at 1a-2a.) Quality King's petition for writ of certiorari was docketed on March 19, 1997. Thus, the issue raised by the petition has been rendered moot, and the petition should be denied.

II.

THE *SEBASTIAN* DECISION AND THE *L'ANZA* DECISION ARE DISTINGUISHABLE.

Quality King has based its petition for writ of certiorari on

2. The permanent injunction in the federal court action remains in effect.

the difference between the decision in *Sebastian Intern., Inc. v. Consumer Contacts [PTY] Ltd.*, 847 F.2d 1093 (3d Cir. 1988), and the *L'anza* decision, 98 F.3d 1109 (9th Cir. 1996). Quality King has argued that the facts in the *Sebastian* case and the *L'anza* case "are similar in all relevant respects. . . ." (Petition at p. 17.) However, the two decisions are, in fact, factually distinguishable in one very important respect.

In the *Sebastian* case, plaintiff Sebastian International, Inc. acknowledged that it had received full value for its copyrighted products. 847 F.2d 1093, 1099 n.2. The *Sebastian* court found this fact important. At page 1099, the court reasoned:

> Under the first sale doctrine, when plaintiff made and then sold its copies, it relinquished all further rights "to sell or otherwise dispose of possession of that copy." Unquestionably that includes any right to claim infringement of the section 106(3) distributive rights for copies made and sold in the United States. With respect to future distribution of those copies in this country, [footnote omitted] clearly the copyright owner already has received its reward through the purchase price.

L'anza, however, did not receive full value for its copyrighted products that were sold for distribution outside of the United States only. 98 F.3d at 1116-1117. The *L'anza* court found this distinction significant. At page 1117, the court explained:

> The *Sebastian* court arrived at a contrary conclusion because it found that the copyright owner received the full value for the products that it sold to the South African

> distributor, in the form of the purchase price. 847 F.2d at 1099. It may be that in *Sebastian*, the hair care products were not sold at a substantial discount, as they were in this case.

Consequently, the *Sebastian* decision and the *L'anza* decision are factually distinguishable in this important respect. Therefore, the court should deny the petition for writ of certiorari.

III.

POLICY CONSIDERATIONS DO NOT WARRANT GRANTING THE PETITION.

In its petition, Quality King has argued that the petition should be granted for policy reasons, including the promotion of competition. At the outset, it should be noted that Quality King seemed to infer that Quality King is a competitor of L'anza. Nothing could be further from the truth. In fact, as noted, in the *L'anza* state court action, Quality King argued that it was a competitor of L'anza and that its conduct was privileged. However, the jury rejected that proposition. (Opp. App. at 7a.)

Quality King has argued that unless this court resolves the conflict between the *Sebastian* decision and the *L'anza* decision, businesses, such as Quality King, will be placed "in an untenable position" because conduct deemed lawful in the Third Circuit could create liability for copyright infringement in the Ninth Circuit. (Petition at p. 19.) Quality King's litigation history suggests that any rule of law, statutory or common law, creates an "untenable" situation for Quality King. *Warner-Lambert Co. v. Northside Development Corp.*, 86 F.3d 3, 8 (2d Cir. 1996) (enjoining Quality King from selling outdated cough drops); *Charles of the Ritz v. Quality King Distributors, Inc.*, 832 F.2d

1317, 1324 (2d Dist. 1987) (enjoining Quality King from using slogan substantially similar to trademark owner's); *Epocha Distributors, Inc. v. Quality King Distributors, Inc.*, 2 U.S.P.Q. 1805 (E.D.N.Y 1987) (enjoining Quality King from importing trademarked goods); *Med-Sales Assoc., Inc. v. Lebhar-Friedman, Inc.*, 663 F. Supp. 908, 909, 910 (S.D.N.Y. 1987) (noting Quality King's involvement in distribution of counterfeit birth-control pills); *see also* Wall Street Journal, Feb. 9, 1996 (reporting suit against Quality King for selling counterfeit Head & Shoulders shampoo).

The claimed dilemma is actually not unlike other issues faced by businesses on a routine basis and solved as a matter of course. For example, if one or more states have higher statutory standards for certain products, such as the application of volatile organic compound legislation on hair sprays,[3] then a business only manufactures or sells products meeting those standards in those states. The business can continue to manufacture or sell products at lower standards in the remaining states. Of course, a business could manufacture or sell products at the higher standards in all states leading to the benefit of all consumers. Thus, the conundrum that Quality King contends it faces is not unlike other problems faced by companies doing business in more than one state on a regular basis. Quality King can either refrain from distributing copyrighted products obtained outside of the United States and imported without the copyright holder's authorization in the Ninth Circuit or Quality King can refrain from selling these copyrighted products completely.

Moreover, in viewing the competition issue, it should be recognized that L'anza, the copyright holder, is a creator and developer of products. Quality King, on the other hand, is an interloper, at most. The rule of law that Quality King proposes would discourage competition. For example, if L'anza cannot

3. *See, e.g.*, 17 California Code of Regulations § 94500, *et seq.*

enter into agreements to distribute and sell its copyrighted products outside of the United States at lower prices without fear of those products being imported into the United States without L'anza's authorization to compete with L'anza's distribution and price structure for products inside the United States, then L'anza will be discouraged from entering into and competing in foreign markets. Thus, the rule proposed by Quality King will have a deleterious effect on United States companies that create and develop products. Consequently, the potential impact on L'anza far outweighs the purported predicament facing Quality King. Quality King, of course, is not a copyright holder. Moreover, Quality King is not a creator or developer of products. Rather, Quality King is merely a "middleman" interfering with the authorized and planned distribution of L'anza's products, and other products, as well, and Quality King simply tries to make a "fast buck" or "fast penny" by diverting products and manufacturing an unnecessary link in the chain of distribution.

Furthermore, adopting the rule of law proposed by Quality King will not result in reduced litigation, as Quality King has argued. (*See* Petition at p. 20.) If the rule of law proffered by Quality King were adopted, creators and developers of copyrighted products, such as L'anza, could never enter foreign markets without contractual provisions to prevent the importation of those copyrighted products into the United States. If unauthorized importation of the copyrighted products from outside the United States were not actionable as copyright infringement, then litigation would proliferate based upon the violation of these contractual provisions. Therefore, public policy does not favor granting Quality King's petition, much less adopting Quality King's proffered rule of law.

IV.

THE *L'ANZA* COURT'S INTERPRETATION OF THE RELATIONSHIP BETWEEN SECTIONS 106(3), 602(a) AND 109(a) IS CORRECT.

As Quality King correctly observes in its petition, in the *L'anza* decision, the Ninth Circuit concluded that the first sale doctrine of 17 U.S.C. § 109(a) did not extend to copyright infringement under 17 U.S.C. § 602(a). As fully discussed within, the Ninth Circuit's conclusion is correct and its interpretation of Sections 106(3), 602(a) and 109(a) is accurate. As a result, it is unnecessary for the court to grant the petition for writ of certiorari.

A. Statutory Interpretation.

In its petition, Quality King has argued that the Ninth Circuit reads Section 602(a) as creating an "importation right" superior to the general right of distribution granted by Section 106(3). (Petition at p. 9.) Quality King argues that the importation right is superior because it is not limited by the first sale doctrine of Section 109(a). (*Id.*) In arguing that the Ninth Circuit's conclusion is in error, Quality King places great emphasis on the fact that Section 602(a) states that the unauthorized importation of works acquired outside the United States "is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501." 17 U.S.C. § 602(a). (Petition at p. 10.) Quality King reasons that if Congress had not intended to make the first sale doctrine a limitation on the importation right, Congress would not have identified the importation right as a subset of the distribution right. This reasoning relies on the proposition that each of the exclusive rights of a copyright owner are completely discrete and distinct. However, the legislative history reveals otherwise.

The exclusive rights articulated in Section 106 are "cumulative and may overlap in some cases. Each of the five enumerated rights may be subdivided indefinitely." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 61 (1976), reprinted in 1976 U.S.C.C.A.N. 5659. The House Committee on the Judiciary explained:

> The five fundamental rights that the bill gives to copyright owners — the exclusive rights of reproduction, adaptation, publication, performance, and display — are stated generally in section 106. These exclusive rights, which comprise the so-called "bundle of rights" that is a copyright, are cumulative and may overlap in some cases. Each of the five enumerated rights may be subdivided indefinitely and, as discussed below in connection with section 201, each subdivision of an exclusive right may be owned and enforced separately.

Id.

More importantly, the statutory language itself reveals that while the importation right may be a form of the distribution right, the two rights are not identical. In 17 U.S.C. § 501, an infringer is defined as follows:

> (a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. . . .

Thus, a violation of the importation right under Section 602 is treated separately and distinctly from the rights, including the distribution right, under Section 106.

It is important to remember that "as the term 'copyright' suggests, it is the act of copying which is essential to, and constitutes the very essence of all copyright infringement." 2 Nimmer on Copyright § 8.202[A] (1986). Importation itself can be the equivalent of the act of copying since importation increases the number of copies of a work available in this country. The copyright owners' right to control the number of copies of work in this country can be violated as much by the unauthorized importation of works acquired outside the United States as by mass copying in the United States. Thus, the importation right insures the copyright owner control of the number of copyrighted products in the market by preventing the saturation of the market with unauthorized imports just as the copyright owner has the right to prevent the making of unauthorized copies to prevent a similar saturation.

The *L'anza* court found the situation to be an important problem and that Congress had intended to prevent or protect against this problem by enacting Section 602(a). At pages 1116 and 1117, the court reasoned:

> The *C & C* court explained this point as follows:
>
> > [The] "full value" — the price at which the copyright owner is willing to sell copies of his work — depends on market conditions and, in today's global economy, varies from country to country. For example, the owner of a copyright in a sound recording may

> > demand $10 each to sell 1 million phonorecords of that sound recording in the United States, but may be willing to sell another 1 million phonorecords for $7 each in Australia in order to enter the market there or for some other legitimate business purpose. If the phonorecords originally sold for $7 in Australia are allowed to enter the United States, where they may then be sold again for, say, $8, the United States copyright owner is forced to compete with that price, and thus is prevented from receiving the $10 to which he is entitled for each of the phonorecords initially released into the United States market.

C & C, 832 F. Supp. at 1390-91. Thus, the *C & C* court concluded,

> > [a]pplying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate [the principle that the copyright owner is entitled to realize the full value of each copy or phonorecord upon its disposition] and defeat Congress' intent, in enacting Section 602(a), to expand importation protection for copyright owners so as to avoid circumvention of the distribution right.

Id. at 1391.

Although *C & C* addressed the importation of copies manufactured outside of the United States, its logic is equally applicable to the scenario at issue here, where the copyright owner sold U.S. manufactured goods at a substantial discount, with the intent that they would be sold exclusively outside of the United States (Quality King concedes that the goods were to be sold outside of the United States). Just as in the example offered by *C & C*, the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels, notwithstanding the fact that the imported products were manufactured in the United States and sold by L'anza. As a result, it would contradict the congressional intent underlying §§ 106(3), 109(a) and 602(a) if we were to hold that § 109(a) barred liability under § 602(a) in this case.

Moreover, Section 602(a) also supports the conclusion that the first sale doctrine is not a defense to a violation of that section. Section 602(a) provides:

> (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

This subsection does not apply to —

> (1) importation, of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;
>
> (2) importation for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or
>
> (3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic

> reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

Thus, Section 602(a) lists exceptions for the importation of a limited number of copies acquired for personal, scholarly, religious or governmental purposes. As a result, if the "first sale" doctrine shields a party from liability for importing goods legally purchased overseas, then the express exceptions in Section 602(a) for a limited number of copies for personal, scholarly, religious or governmental purposes serves no end. Consequently, if Section 602(a) were construed such that the "first sale" defense superseded Section 602, such a construction would violate the fundamental rule that a statute should be interpreted so as to avoid making any part of it superfluous. *Kungys v. United States*, 45 U.S. 759, 778, 108 S. Ct. 1537, 1550, 99 L. Ed. 2d 839 (1988); *see generally Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1388 (C.D. Cal. 1993).

Commentators have concurred with this interpretation. In 2 Goldstein, *Copyright*, § 5.6.1.2 (2d ed. 1996), the author discusses limits on the first sale doctrine as applied to imported goods:

> Section 602(a) makes the unauthorized importation into the United States of copies or phonorecords acquired outside the United States an infringement of section 106(3)'s distribution right. [Footnote omitted.] Does this mean that section 109(a)'s first sale exemption to section 106(3)'s distribution right is available to importers who acquired ownership of gray market copies or phonorecords lawfully made abroad? Courts

> have generally answered that the first sale defense is not available in these circumstances. [Footnote omitted.] To allow the first sale defense in these circumstances violates the shared principle of sections 106(3) and 109(a) that a copyright owner should, on first sale, be entitled to realize the full value of each copy or phonorecord produced with its authority, since competition with lower priced imports would inevitably prevent the United States copyright owner from realizing the full value of the copies and phonorecords that it sells. Further, to introduce a first sale defense into section 602(a) would obviate that subsection's exemptions for the importation of limited numbers of copies acquired for personal, scholarly or religious purposes, [footnote omitted] since these copies will often by lawfully made gray market goods purchased through normal market channels abroad.

2 Goldstein, *Copyright*, § 5.6.1.2 "Limits on the First Sale Exemption," pp. 5:115-5:116 (2d ed. 1996).

B. Legislative History.

In its petition, Quality King has also argued that the legislative history of the 1976 Copyright Act does not expressly discuss the interaction between Sections 109(a) and 602(a). (Petition at p. 14 n.4.) Quality King also demeans the legislative history cited by the Ninth Circuit in the *L'anza* decision. (*Id.*) However, there is legislative history not cited by the Ninth Circuit in the *L'anza* decision that does support the Ninth Circuit's interpretation.

The legislative history with respect to Section 501 supports the interpretation that the rights under Section 602 are separate and distinct from those under Section 106. The House Committee on the Judiciary noted:

> The bill, unlike the present law, contains a general statement of what constitutes infringement of copyright. Section 501(a) identifies a copyright infringer as someone who "violates any of the exclusive rights of the copyright owner as provided by sections 106 through 188" of the bill, or who imports copies or phonorecords in violation of section 602. Under the latter section an unauthorized importation of copies or phonorecords acquired abroad is an infringement of the exclusive right of distribution under certain circumstances.

H.R. Rep. No. 1476, 94th Cong., 2d Sess. 158 (1976).[4]

The legislative history of Section 602 also supports the interpretation that the first sale doctrine is not a defense to a violation of that section. The Report of the House Committee on the Judiciary states:

> Section 602(a) first states the general rule that unauthorized importation is an infringement merely if the copies or phonorecords "have been acquired outside the United States", but then enumerates three specific exceptions: . . . .

4. The House Report does not include the caveat cited by Quality King with respect to the legislative history cited by the Ninth Circuit in *L'anza*, to wit, no approval or disapproval was given as to the expressed views.

> If none of the three exemptions applies, any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them, even before any public distribution in this country has taken place.

Id. at 169-170.

Moreover, the House Committee on the Judiciary viewed Section 603 as the counterpart of Section 109 vis-à-vis Sections 601 and 602. The Committee explained:

> The importation prohibitions of both sections 601 and 602 would be enforced under section 603, which is similar to section 109 of the statute now in effect.

Id. at 170. If the first sale doctrine of Section 109 applied to Section 602, then Section 603 would be unnecessary.

Finally, a review of the report from the House Committee on the Judiciary regarding Section 109 reveals that no reference whatsoever is made with respect to its application to Section 602. *Id.* at 79-81. By the same token, in the part of the report regarding Section 602, no reference whatsoever is made to Section 109, much less that Section 109 applies to Section 602. *Id.* at 169-170. Consequently, notwithstanding Quality King's argument to the contrary, the Copyright Act itself, as well as its legislative history, strongly supports the interpretation that the first sale doctrine under Section 109(a) has no application to a violation of Section 602(a). Therefore, the Ninth Circuit's holding in the *L'anza* decision was correct, and Quality King's petition should be denied.

CONCLUSION

The petition should be denied.

Respectfully submitted,

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APPENDIX A — SATISFACTION OF JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA, WESTERN DIVISION FILED MARCH 25, 1997

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UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION

CASE NO. CV-94 0841 JSL

L'ANZA RESEARCH INTERNATIONAL, INC., a California corporation,

Plaintiff,

vs.

QUALITY KING, INC., a New York corporation; BOB PACE, an individual; THE VONS COMPANIES, INC., a Michigan

Appendix A

corporation; LONGS DRUG STORES CORPORATION, a Maryland corporation; LONGS DRUG STORES CALIFORNIA, INC., a California corporation; DRUG EMPORIUM, INC., a Delaware corporation; and RANCHO DEL MAR PHARMACY, INC. dba VASSEY DRUGS, L. INTERTRADE, LTD., an entity of unknown form; and MR. HANIF, an individual,

Defendants.

SATISFACTION OF JUDGMENT

PLEASE TAKE NOTICE that payment having been made, full satisfaction of the monetary judgment is hereby acknowledged; however, the permanent injunction in the judgment remains in full force and effect.

DATED: March __, 1997.

RAYMOND H. GOETTSCH, a Member of
LaTORRACA and GOETTSCH
A Law Partnership Attorneys for Plaintiff L'anza
Research International, Inc., a
California corporation

APPENDIX B — JUDGMENT ON SPECIAL VERDICT OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA FOR THE COUNTY OF LOS ANGELES FILED AUGUST 30, 1995

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF LOS ANGELES

CASE NO. BC089231

L'ANZA RESEARCH INTERNATIONAL, INC., a California corporation,

Plaintiff,

vs.

QUALITY KING, INC., a New York corporation; BOB PACE, an individual; THE VONS COMPANIES, INC., a Michigan corporation; LONGS DRUG STORES CORPORATION, a Maryland corporation; LONGS DRUG STORES CALIFORNIA, INC., a California corporation; DRUG EMPORIUM, INC., a Delaware corporation; and DOES 1 through 1000, inclusive,

Defendants.

JUDGMENT ON SPECIAL VERDICT

This action came on regularly for trial by jury on April 14, 1995 with plaintiff L'anza Research International, Inc. appearing by its attorneys, LaTorraca and Goettsch, and defendant Quality King Distributors, Inc., appearing by its attorneys, Rintala, Smoot, Jaenicke & Brunswick. A jury of 12 persons was duly impaneled and sworn, witnesses testified, and after being duly instructed by the court, the jury deliberated, and on May 18, 1995, returned the following special verdict:

Appendix B

SPECIAL VERDICT

We the jury in the above-entitled action make the following findings of fact on the questions submitted to us:

QUESTION NO. 1:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. intentionally induced a breach of a contract between plaintiff L'anza Research International, Inc. and one or more of its distributors?

Answer: "Yes" or "No."

Answer: *Yes.*

Now answer Question No. 2.

QUESTION NO. 2:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. conspired to intentionally induce a breach of a contract between L'anza Research International, Inc. and one or more of its distributors?

Answer: "Yes" or "No."

Answer: *Yes.*

Now answer Question No. 3.

Appendix B

QUESTION NO. 3:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. intentionally interfered with the contractual relations between plaintiff L'anza Research International, Inc. and one or more of its distributors?

Answer: "Yes" or "No."

Answer: *Yes.*

Now answer Question No. 4.

QUESTION NO. 4:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. conspired to intentionally interfere with the contractual relations between plaintiff L'anza Research International, Inc. and one or more of its distributors?

Answer: "Yes" or "No."

Answer: *Yes.*

Now answer Question No. 5.

Appendix B

QUESTION NO. 5:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. intentionally interfered with the prospective economic advantage of plaintiff L'anza Research International, Inc.?

Answer: "Yes" or "No."

Answer: *Yes*.

Now answer Question No. 6.

QUESTION NO. 6:

Do you find from a preponderance of the evidence that defendant Quality King Distributors, Inc. conspired to intentionally interfere with the prospective economic advantage of plaintiff L'anza Research International, Inc.?

Answer: "Yes" or "No."

Answer: *Yes*.

Now answer Question No. 7.

QUESTION NO. 7:

Do you find from a preponderance of the evidence that defendant Quality King

Appendix B

Distributors, Inc. negligently interfered with the prospective economic advantage of plaintiff L'anza Research International, Inc.?

Answer: "Yes" or "No."

Answer: *Yes*.

If you answered "Yes" to either Question No. 5, Question No. 6, *or* Question No. 7, then answer Question No. 8. If you answered "No" to Question No. 1, Question No. 2, Question No. 3, Question No. 4, Question No. 5, Question No. 6, *and* Question No. 7, then sign and return this verdict form.

QUESTION NO. 8:

Do you find from a preponderance of the evidence, that the conduct by defendant Quality King Distributors, Inc., upon which you found liability for intentional interference with prospective economic advantage and negligent interference with prospective economic advantage, was privileged?

Answer: "Yes" or "No."

Answer: *No*.

If you answered "Yes" to either Question No. 1, Question No. 2, Question No. 3, *or*

Question No. 4, then answer Question No. 9. If you answer "Yes" to either Question No. 5, Question No. 6 *or* Question No. 7, *and* you answered "No" to Question No. 8, then answer Question No. 9.

If you answered "No" to Question No. 1, Question No. 2, Question No. 3, Question No. 4, Question No. 5, Question No. 6, *and* Question No. 7, then sign and return this verdict form. If you answered "No" to Question No. 1, Question No. 2, Question No. 3, Question No. 4, *and* you answered "Yes" to Question No. 8, then sign and return this verdict form.

QUESTION NO. 9:

By a preponderance of the evidence, what do you find to be the total amount of damages, if any, suffered by plaintiff L'anza Research International, Inc. as a legal cause of the conduct by defendant Quality King Distributors, Inc. upon which you found liability?

Answer: *$480,000.*

If you answered "Yes" to either Question No. 1, Question No. 2, Question No. 3, *or* Question No. 4, then answer Question No. 10. If you answered "Yes" to either Question No. 5 *or* Question No. 6 *and* you answered

"No" to Question No. 8, then answer Question No. 10. Otherwise, sign and return this verdict form.

QUESTION NO. 10:

Do you find by clear and convincing evidence that defendant Quality King Distributors, Inc. was guilty of malice or fraud?

Answer: "Yes" or "No."

Answer: *Yes.*

Now, sign and return this verdict form.

Thereafter, additional evidence was entered into evidence through a stipulation by the parties. The same 12-person jury was further instructed by the court and deliberated, and on May 23, 1995, returned the following special verdict:

SPECIAL VERDICT

We the jury in the above-entitled action make the following findings of fact on the questions submitted to us:

QUESTION NO. 11:

By clear and convincing evidence, what is your award of punitive damages, if any, against defendant Quality King Distributors, Inc.?

Appendix B

State an amount: $*3,400,000.*

Now, sign and return this verdict form.

Thereafter, the parties, through their respective counsel, stipulated to having L'anza's request for a permanent junction under Business and Professions Code § 17203 in L'anza's cause of action for unfair competition under Business and Professions Code § 17200 *et seq.* decided on a motion for a permanent injunction to be set for hearing on or after June 9, 1995. On June 14, 1995 and July 28, 1995, the court after hearing oral argument and reading the moving, opposing and reply papers on L'anza's motion for a permanent injunction and duly considering the same, found that defendant Quality King Distributors, Inc., its agents, servants, employees, principals, subsidiaries and affiliates should be enjoined under Business and Professions Code § 17203 from purchasing, offering to sell, selling or in any way selling or transferring to others any L'anza hair care products that were originally sold by L'anza within the United States. The court also ordered that Quality King may send any L'anza product that it intends to buy, sell, or dispose of to L'anza in the product's original carton and that L'anza shall inform Quality King within ten (10) days of receipt as to whether that particular product had previously been sold by L'anza within the United States and then return the product to Quality King at Quality King's expense. Thereafter, if L'anza has informed Quality King that a particular L'anza product was not previously sold by L'anza within the United States, Quality King shall not be in violation of this injunction by buying, offering to sell, selling, or transferring the product so identified by L'anza.

NOW, THEREFORE, IT IS ORDERED, ADJUDGED AND

Appendix B

DECREED that plaintiff L'anza Research International, Inc. recover from defendant Quality King Distributors, Inc., $3,880,000 and costs in the amount of $_____.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that defendant Quality King Distributors, Inc., its agents, servants, employees, principals, subsidiaries, affiliates, or all those in active concert or participation with it are hereby enjoined and prohibited from purchasing, offering to sell, selling or in any way selling or transferring to others any L'anza hair care products that were originally sold by L'anza within the United States.

IT IS FURTHER ORDERED, ADJUDGED AND DECREED that Quality King may send any L'anza product in its original carton that it intends to buy, sell, or dispose of and L'anza shall inform Quality King within ten (10) days of receipt as to whether that particular L'anza product had previously been sold by L'anza within the United States and then return the product to Quality King at Quality King's expense. Thereafter, if L'anza has informed Quality King that a particular L'anza product was not previously sold by L'anza within the United States, Quality King shall not be in violation of this injunction by buying, offering to sell, selling, or transferring the product so identified by L'anza.

DATED: _____, 1995.

_____

JUDGE OF THE SUPERIOR COURT

Supreme Court, U.S.
FILED
MAY 7 1997
CLERK

No. 96-1470

IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,
a New York corporation,
Petitioner,

vs.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PETITIONER'S REPLY BRIEF

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I.

ARGUMENT

In Respondent's Brief In Opposition, Respondent L'anza Research International, Inc. argues that Quality King Distributors, Inc.'s Petition for Writ of Certiorari has been rendered moot because Quality King has paid the judgment. (Respondent's Brief at 7.) L'anza is incorrect. Payment in satisfaction of the money judgment does not foreclose an appeal. *Stanton Road Associates v. Lohrey Enterprises*, 984 F.2d 1015, 1020 (9th Cir. 1993); *U.S. for Use of Morgan & Son v. Timberland Paving*, 745 F.2d 595, 598 (9th Cir. 1984). Moreover, as Respondent concedes, the permanent injunction entered by the United States District Court remains in full force and effect. (Respondent's Brief at 7, n.2.) That injunction is an independent reason that the appeal is not moot.

With respect to the other arguments raised in Respondent's Brief in Opposition, Petitioner relies on its Petition.

II.

CONCLUSION

The Petition should be granted.

DATED: May 7, 1997

Respectfully submitted,

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MOTION FILED

APR 17 1997

(2)

No. 96-1470

IN THE

SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,

Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF *AMICI CURIAE* and BRIEF OF *AMICI CURIAE*, COSTCO COMPANIES, INC., NATIONAL ASSOCIATION OF CHAIN DRUG STORES, INTERNATIONAL MASS RETAIL ASSOCIATION, NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS, and THE FOOD MARKETING INSTITUTE, IN SUPPORT OF PETITIONER

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27pp

No. 96-1470

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,

Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF *AMICI CURIAE*

Costco Companies, Inc., National Association of Chain Drug Stores, International Mass Retail Association, National Association of Catalog Showroom Merchandisers, and the Food Marketing Institute respectfully move for leave to file the brief *amici curiae* submitted with this motion. *Amici* have received a written consent from counsel for petitioner. Respondent's counsel has declined to give a consent.

Amici seek to file their brief to make three points not developed in the petition. These points are:

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Counsel for Food Marketing Institute

1. There is a system of international treaties that affects the scope of any claimed rights of the U.S. copyright owner in this case, and that bears on the interpretation of sections 602(a), 106 and 109(a) of the Copyright Act;

2. The Ninth Circuit's "full value" prerequisite for applying the first sale doctrine of section 109(a) of the Copyright Act is a judicial invention that contravenes this Court's pronouncements on not expanding statutory monopolies under the copyright and patent laws; and

3. The Ninth Circuit's decision affects not only petitioner, but also *amici* and the thousands of retail establishments operated by members of the *amici* associations. In particular, the decisions will affect (i) the cost of making purchases of genuine copyrighted products in secondary markets, (ii) the supply and price of such products, and (iii) the markets in which retailers may dispose of their excess inventories of copyrighted products. These effects demonstrate a need for a nationwide rule.

Since most of the *amici* and their members have transactions or some presence in the commercially important territories covered by the Ninth Circuit, *amici* and their members will be immediately affected by the decision to grant or deny certiorari. Although it is appreciated that this motion is "not favored" (Rule 37.2(b)), *amici* respectfully suggest that their brief will present to "the Court relevant matter not already brought to its attention by the parties . . . ." (Rule 37.1).

For the above reasons, we ask that this motion be granted.

Respectfully submitted,

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No. 96-1470

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,

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Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO
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FOR THE NINTH CIRCUIT

BRIEF OF *AMICI CURIAE*, COSTCO COMPANIES, INC., NATIONAL ASSOCIATION OF CHAIN DRUG STORES, INTERNATIONAL MASS RETAIL ASSOCIATION, NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS, and THE FOOD MARKETING INSTITUTE, IN SUPPORT OF PETITIONER

Costco Companies, Inc., National Association of Chain Drug Stores, International Mass Retail Association, National Association of Catalog Showroom Merchandisers, and the Food Marketing Institute are submitting this joint brief *amici curiae* in support of petitioner.

INTEREST OF *AMICI CURIAE*

Costco Companies, Inc. ("Costco")[1] through its subsidiaries operate "Costco Wholesale" and "Price Club" membership warehouse clubs across the United States and Canada and in certain other countries. Costco's annual sales of approximately $20 billion make it the seventh largest retailer in the United States. About 20,000,000 U.S. cardholders shop at Costco and Price Club warehouse locations for a wide range of merchandise that includes imported goods with copyrighted labels or features. Since 1994, Costco has been sued four times, solely in the Ninth Circuit, on claims that its sales of genuine goods violate Section 602(a) of the Copyright Act.[2] One of those lawsuits was brought by respondent.

National Association of Chain Drug Stores ("NACDS") has approximately 130 members that operate 25,419 retail chain drug store outlets throughout the United States. Its members generate over $110 billion in sales. A list of its members is in the Appendix, *infra* at 1a.

International Mass Retail Association ("IMRA") represents 180 members companies, including discount department stores, home centers, category-dominant or specialty discounters, catalogue showrooms, dollar stores, warehouse clubs, deep discount drugstores and off-price stores. Collectively, IMRA retail members operate more than 70,000 stores in the U.S. and abroad and employ

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[1] Until February 4, 1997 Costco was called Price/Costco, Inc. Its shares are publicly traded.

[2] *Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corporation*, 97 F.3d 377 (9th Cir. 1996); *Swarovski America Ltd. v. Price/Costco Inc. et al.* and *Swarovski America Ltd. v. Costco Wholesale Corp.*, C.D. Cal. Nos. 93-6365 SVW, 93-7403 SVW (Judgment Dec. 21, 1994); *L'anza Research Int'l, Inc. v. Costco Wholesale Corp.*, C.D. Cal. No. 95-0244 TJH (settled 1995).

over two million Americans. IMRA retail members cumulatively represent over $380 billion in annual sales.

National Association of Catalog Showroom Merchandisers ("NACSM") is an association of catalog showroom merchandisers, whose members use catalogs showing brand name products as a principal medium of advertising. It has several hundred members; its member discount retail stores account for approximately $5 billion in annual sales.

The Food Marketing Institute ("FMI") is a nonprofit association conducting programs in research, education, industry relations and public affairs on behalf of its 1,500 members including their subsidiaries – food retailers and wholesalers and their customers in the United States and around the world. FMI's domestic member companies operate approximately 21,000 retail food stores with a combined annual sales volume of $220 billion – more than half of all grocery store sales in the United States. FMI's retail membership is composed of large multi-store chains, small regional firms and independent supermarkets.

Each of the *amici* associations advocates the freedom of its members to purchase and resell genuine brand name products, to make available any such product at competitive prices as determined by each individual retailer, and thereby to compete freely with other forms of retailing. The Ninth Circuit's decision in this case presents a substantial threat to those freedoms. If the decision goes unreviewed, Costco and the retailer members of the *amici* associations will face significant costs and impediments in purchasing and reselling genuine goods having a copyrighted label or feature, affecting substantial commerce. As a result, consumer access to the benefits of open competition will be curtailed.

SUMMARY OF ARGUMENT

In a decision that directly conflicts with a prior ruling of the Third Circuit, the Ninth Circuit here held that a U.S. copyright owner can distribute a product with a copyrighted label and, if the same article is later imported and resold by a subsequent purchaser, the copyright owner can sue for violation of its distribution right. The court of appeals held that section 602(a) of the Copyright Act subjects merchants to such liability after a first sale by the copyright owner, despite the first sale doctrine in section 109(a) of the Copyright Act.

A. The principal basis for the Ninth Circuit's decision was a view that section 602(a) would become "meaningless" if it were made subject to the first sale doctrine. As shown by the Third Circuit's conflicting decision in *Sebastian Intn'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988), however, section 602(a) can coexist with the first sale doctrine by distinguishing between (1) a prior distribution by the U.S. copyright owner itself and (2) one by an assignee or licensee of foreign rights. As the petition points out, this distinction is supported by the language of section 602(a) (which states a type of infringement of a U.S. copyright owner's distribution right), section 106 (which sets forth that distribution right), and section 109(a) (which ends the distribution right upon a first sale). Pet. at 7-12.

This interplay of sections 602(a), 106 and 109(a) is best understood when one considers how a U.S. copyright owner may exploit its worldwide copyright rights. When the U.S. copyright owner itself keeps the entire copyright and first distributes a particular copy by a sale, it has exercised its right of distribution. There is

no remaining right to be infringed by a subsequent importation of the type mentioned in section 602(a).

By contrast, a U.S. copyright owner may choose to subdivide its worldwide rights, licensing (or assigning) some of them to others. If this occurs and a foreign licensee has made the first distribution of a copyrighted item, then, when the item is imported without authority of the U.S. copyright owner, the U.S. owner's distribution right has yet to be exercised. Section 602(a) provides that this distribution right is infringed by an importation without the copyright owner's authority.

The Third Circuit's decision in *Sebastian* correctly drew this distinction between a first sale by a U.S. copyright owner and one by a foreign licensee; the Ninth Circuit's decision failed to discern the difference.

B. The second basis for the Ninth Circuit's decision is even more dubious. The Ninth Circuit believed that the first sale doctrine of section 109(a) never applies unless, upstream, the U.S. copyright owner has received "full value" on the first sale of each copy.[3] Pet. at A11-A15. The court of appeals purported to find legislative support for its new rule in testimony by industry witnesses at congressional hearings – not from any statement by a Member of Congress or in a Committee Report. Pet. at A12-A13. It also cited other authorities which have, as their sole jurisprudential foundation, *dicta* from a case decided under an earlier statute. In these respects, the decision is a judicially invented rule which contravenes this Court's precept that statutory patent and copyright monopolies can be expanded only by Congress.

---

[3]The Ninth Circuit also assumed that "full value" is not received when the copyright owner voluntarily makes a sale abroad at a price lower than the U.S. selling price. Pet. at A14.

C. Based on this questionable lineage, the Ninth Circuit's decision now requires retailers and distributors to undertake new types of investigation from which merchants have been previously insulated by the "good-faith purchaser" rule. To guard against suit in the Ninth Circuit, merchants must now determine not only whether a product with a copyright was produced by the U.S. copyright owner, but also

- Whether some upstream purchaser imported it, and
- Whether the compensation voluntarily accepted by the copyright owner constituted the product's "full value."

The decision has had, and will have, a broad effect on the national marketplace. Jobbers and independent distributors will face impediments in selling products with copyrighted labels, which will reduce secondary markets for retailers attempting to sell excess inventories. National retailers and distributors will be sued in the Ninth Circuit for commercial transactions which are lawful in the rest of the nation. This disparity in the treatment of nationwide conduct ought not go unreviewed, particularly since it is "[t]he purpose of Congress to have national uniformity in patent and copyright laws. . . ." *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 n.7 (1964).

ARGUMENT

DEPRIVING MERCHANTS OF THE FIRST SALE DOCTRINE ON IMPORTED GOODS PREVIOUSLY SOLD BY THE U.S. COPYRIGHT OWNER WAS NOT INTENDED BY CONGRESS, AND CALLS FOR A NATIONWIDE RULE.

L'anza Research International, Inc. created a design, registered a copyright for it, and placed it on the labels of its hair care products. L'anza sold the goods in question to its United Kingdom distributor, and the goods were exported from the United States. A subsequent purchaser then shipped the goods back to the United States and sold them to petitioner, Quality King Distributors, Inc. Quality King resold the products to others, and was sued by L'anza for violating section 602(a) of the Copyright Act.

L'anza's claim depends on the relationship among three provisions of the Copyright Act, sections 106, 109(a) and 602(a). Section 106 sets out the exclusive rights under a copyright, including a right of distribution under section 106(3). Section 602(a) purports to define a component of the section 106 distribution right. It provides that importation of copyrighted material "without authority of the owner of copyright" is an infringement of the copyright owner's "exclusive right to distribute copies or phonorecords under section 106. . . ." 17 U.S.C. §602(a).

Section 109(a), however, makes the distribution right subject to the first sale doctrine. It states that "notwithstanding the provisions of section 106(3)," owners of a particular copy may "without the authority of the copyright owner . . . sell or otherwise dispose of the possession of that copy. . . ." 17 U.S.C. §109(a). Moreover, under section 106, the exclusive rights of a copyright owner are

"[s]ubject to sections 107 through 120," which of course encompass section 109(a).

The Ninth Circuit ruled (1) "that §602(a) would be rendered meaningless" if the first sale doctrine of section 109(a) were applied to claims under section 602(a) (Pet at A11), and (2) that, in any case, the first sale doctrine does not apply to L'anza because L'anza did not receive "full value" when it made the first sale (Pet. at A11-A15).

Petitioner correctly notes the direct conflict between the Third and Ninth Circuits on both of these holdings. Pet. at 7-17. *Amici* focus instead on (A) the "meaning" that should be ascribed to sections 602(a), 106 and 109(a) in light of the international context of every copyright, (B) the incompatibility between the Ninth Circuit's "full value" requirement and this Court's pronouncements against judicial expansion of statutory monopolies, and (C) how national commerce participated in by *amici*, including *amici* associations' members, will be impeded if a nationwide rule does not replace the Ninth Circuit's divergent construction.

A. The International Context of Sections 602(a), 106 and 109(a).

The meaning of section 602(a), and its relationship to sections 106 and 109(a), is best understood when one reviews how a copyright is created and how a copyright owner's rights in various countries may be subdivided.

Here, L'anza created an original graphic design for its product labels. From the moment of creation, L'anza had a copyright both in the United States and in most other nations. This occurred both under section 104 of the Copyright Act, 17 U.S.C. §104, and under the multi-

lateral treaties implemented by the Act. In particular, the Berne Convention and the Universal Copyright Convention give an author in any convention country automatic recognition of, and protection for, his or her works upon their creation. Thus, Article 5 of the Berne Convention provides in part:

> (1) Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.
>
> (2) The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work. . . .[4]

This system of treaty rights gave L'anza instantaneous recognition of its copyright virtually worldwide. Although the protections may vary country by country, L'anza fully controlled all rights embodied in its copyright.

A copyright owner may follow any of several paths to exploit its copyright. It may keep for itself, as L'anza has done in this case, the entire bundle of worldwide rights that make up the copyright. If it follows this path, one copyright owner will necessarily control the first distribution of each genuine copy; it will set the price

---

[4] Berne Convention for the Protection of Literary and Artistic Works (Paris 1971), S. Treaty Doc. No. 27, 99th Cong. 2d Sess., 40 (1986). Similar provisions appear in Article II of the Universal Copyright Convention, 25 UST 1341 (1971). Section 104 of the Copyright Act implements these international obligations by granting protection to works created or published in countries adhering to the Berne Convention and Universal Copyright Convention. *See* 17 U.S.C. §104.

and terms of the first sale. Beyond whatever rights the copyright owner lawfully could negotiate for itself in a distribution contract, there would seem little reason why Congress would have conferred still additional powers over copies the copyright owner has already distributed. Nothing in the interplay of sections 106(3), 109(a) and 602(a) reveals such an intent.

A second path L'anza could have followed would have been to subdivide its worldwide copyright, by assigning (or licensing) to others certain foreign rights to reproduce and distribute copies of the L'anza design. Under this approach, the U.S. owner of copyright[5] will not necessarily control the first distribution of copies; on foreign sales, the assignee or licensee will have set the price and terms of the first sale. In this situation, L'anza might validly complain if copies have been imported and L'anza has not had any benefit from the distribution of those copies.

Simply put, under the first path, where the U.S. owner of a copyright itself controls distribution of a particular copy, its distribution right is exercised upon the first sale. In case of a subsequent importation of the same copy, section 602(a) no longer can give rise to "an infringement of the exclusive right to distribute copies. . . ." 17 U.S.C. §602(a). The exclusive right has already been exercised for that particular copy, the U.S. copyright owner has

[5] "Owner of copyright" is a term that means the owner of the entire copyright. It is the term used in 17 U.S.C. §§106 and 602. An exclusive licensee is sometimes referred to as a "copyright owner," but it is not the owner of copyright; rather, "the licensor remains the owner of the copyright, and the licensee is the owner only of the exclusive rights that are the subject of [the] license. . . ." 3 M. Nimmer & D. Nimmer, *Nimmer on Copyright* §10.02 [C] [2] at 10-34 (1996).

set and received its price, and there is no remaining distribution right to be infringed when the same goods are imported. Under the second path, however, if the first distribution has been made by a foreign licensee, the U.S. owner has neither controlled the sale nor set the price; its distribution right remains intact and is infringed by an unauthorized importation.

In this manner, the Third Circuit (unlike the Ninth) found meaning in the text of the statute by distinguishing between circumstances where the imported product had been previously distributed by the U.S. copyright owner itself and where it had been previously distributed by a licensee or assignee of foreign rights:

> We do not confront a license agreement or copies produced in a foreign country under that agreement by someone other than the owner; instead, this case centers on actual copies of labels printed in this country by the copyright owner. Sebastian produced and sold the same copies which it now seeks to control.

Sebastian, 847 F.2d at 1098 (Pet. at D11). In ignoring this distinction, the Ninth Circuit's decision does not merely present a conflict between the circuits; it also disregards the international context of the statute and the language connecting section 602(a) (which states a type of infringement of the distribution right), section 106 (which sets out the distribution right), and section 109(a) (which ends the distribution right upon a first sale).

B. The "Full Value" Rule Contravenes This Court's Decisions Against Expanding Statutory Monopolies.

The second of the two reasons given by the Ninth Circuit for its decision is that L'anza did not receive "full value" on its previous export sales, which were at prices below the normal U.S. selling price. In short, L'anza's reward on the first sale, which it voluntarily accepted, was not large enough. Yet, as this Court has observed, copyright privileges are intended to encourage creativity; they are "neither unlimited nor primarily designed to provide a special private benefit." *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 429 (1984).

As the petition points out, the Ninth Circuit simply relied on statements of industry witnesses (not Members of Congress) to support its unique reading. *See* Pet. 14 n.4. Nothing in the text of the statute or in its legislative history supports the proposition that the first sale doctrine does not apply until and unless the copyright owner reaps "full value" on the first distribution of a copy. No such legislative foundation exists.

The "full value" prerequisite to applying section 109(a) also is not based on any longstanding jurisprudence impliedly adopted by Congress, but instead derives from *dictum* in a decision under the previous Copyright Act of 1909, *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963). Pet. at 16; *id.* at A11. Even that decision did not refer to "full value," but only whether a copyright owner "has received his reward for the use of the article. . . ." *Platt & Munk*, 315 F.2d at 854. Nothing in that case says that the reward must be "full" or at its zenith.

The "full value" rule is plainly a judicially invented expansion of the scope of the statutory monopoly created by the Copyright Act. As such, it contravenes this Court's precept that statutory monopolies under the patent and copyright laws should be "strictly construed." *Sears Roebuck & Co.*, 376 U.S. at 230 (patent). A court may not "enlarge the scope of respondents' statutory monopolies . . . beyond the limits of the grants authorized by Congress." *Sony*, 464 U.S. at 421 (copyright). Normally, courts must construe any statutory ambiguity against enlarging patent or copyright monopolies. *See, Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530-31 (1972). The "sign of how far Congress has chosen to go can come only from Congress." *Id.* at 530.

C. Commercial Need For A Nationwide Rule.

In normal circumstances, *amici*, including *amici* associations' members, may rely on the "good-faith purchaser for value" rule when they acquire merchandise for resale. The good-faith purchaser rule protects the free transferability of all genuine goods. *See* U.C.C. §2-403. It "allows people safely to engage in the purchase and sale of goods without conducting a costly investigation of the conduct and rights of all previous predecessors in the chain of distribution." *Johnson & Johnson Prod. v. Dal Int'l Trading Co.*, 798 F.2d 100, 104 (3d Cir. 1986) (retailer not liable for selling imported grey market goods that others had fraudulently procured).

The Ninth Circuit's decision punches two holes in the good-faith purchaser shield, and subjects merchants to disparate treatment across the country. First, in the Third Circuit (but not in the Ninth), retailers may freely purchase and resell goods with a copyrighted feature or

label, if the copyright owner first sold the goods. In the Ninth Circuit, however, merchants will be found to have violated the Copyright Act if it turns out that the goods, once distributed by the U.S. copyright owner, were subsequently imported without the same copyright owner's permission.

Second, the court of appeals' "full value" rule requires any national retailer to conduct an investigation before buying a product from a jobber or independent distributor. If the product bears a copyrighted design on its label, the Ninth Circuit tells us that we must ask distributors what price the copyright owner received on a transaction somewhere upstream – and how that price compares with the potential price the copyright owner might have charged. And if unwilling or unable to make a complete and potentially costly investigation, retailers may be subjected in the Ninth Circuit to the Copyright Act's "potent arsenal of remedies." *Sony*, 464 U.S. at 433.

The eventual effect on commerce is evident: there will be fewer (or more costly) purchases of copyrighted goods from independent distributors. Retailers will also find it more difficult to turn to jobbers and distributors to buy up their excess inventories at the end of a season, or when retailers wish to make room for new merchandise.

This decision, therefore, affects supply conditions in secondary markets for goods. Whenver a product bears a copyrighted element on its label, the decision creates strong incentives to deal directly with the copyright owner and to eschew the same products when offered by trading companies, jobbers or distributors like petitioner. Inevitably, there is an effect on competition and price: with less intra-brand competition at the wholesale level, wholesale prices must rise.

The Ninth Circuit's approach also creates conflicting rules on the transferability of identical copyrighted products that originate from the copyright owner itself. Suppose two identical bottles of the same product appear side by side on a retailer's shelf, each with a copyrighted label and each manufactured and previously sold by the U.S. copyright owner. If one of the bottles had been previously exported but the second bottle had only been sold domestically, the retailer can be sued in the Ninth Circuit for distributing the first bottle – without any physical means of distinguishing it from the second bottle.

This Court has recognized a "purpose of Congress to have national uniformity in patent and copyright laws. . . ." *Sears Roebuck & Co.*, 376 U.S. at 23a n.7. Here, the lack of uniformity creates considerably uncertainty. Merchandise buying strategies are difficult to formulate and implement without the commercial certainty of a nationwide rule. Until there is a uniform rule, national retailers that have some presence or business on the West Coast will also face a greater incidence of litigation (and significant liability exposure) in the Ninth Circuit.

In sum, the Ninth Circuit's decision does not reflect an explicit choice made by Congress in the text of the Copyright Act. It is instead a divergent rule that is judicially invented. It affects commerce nationwide and should not go unreviewed.

CONCLUSION

For the above reasons as well as those stated in the petition, the Court should grant the petition.

Respectfully submitted,

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APPENDIX

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ABC Stores Div. MNS Ltd.
Albertson's, Inc.
American Drug Stores, Inc.
Andorra Neighborhood Pharmacies
Arbor Drugs, Inc.
Ark Drugs
The Arrow Corporation/Arrow Prescription Centers
Arthur Drug Stores Inc.
The Bartell Drug Company
Brooks Pharmacy
Buffalo Pharmacies
CRX Pharmacy
CVS Pharmacy, Inc.
Carr Gottstein Foods Company
City Drug Stores Inc.
City Drugs
Cobom's, Incorporated
Concord Drugs, Inc.
Costco Wholesale
D & W Food Centers, Inc.
Davidson Drugs, Inc.
Discount Drug Mart, Inc.
Downeast Pharmacy, Inc.
Drug Emporium, Inc.
Drug Fair Stores of NJ
Drug World Pharmacies
Drugtown Drugstores
Duane Reade
Eckerd Corporation

Emm-Dee Drug Corporation
Farmacias El Amal
Fedco Professional Pharmacies
Fedco, Inc.
Fred's Inc.
FreeCorp Peabody dba Freedom Drug
Fruth Pharmacy
Genovese Drug Stores, Inc.
Giant Eagle, Inc.
Giant Food Inc., Pharmacy Div. Giant Discount Drug
Grand Union Company
The Great Atlantic & Pacific Tea Co., Inc.
(A&P Supermarket)
Gresham Drugs, Inc.
H-E-B Foods/Drugs Inc.
Hannaford Bros., Co.
Happy Harry's Discount Drugs
Harco Drug, Inc.
Harmon Discount Stores
Hartig Drug Stores
Health Care Professionals
Hi-School Pharmacy, Inc.
Horton and Converse Pharmacies
K&B Services, Incorporated
Keitsch Bros. Inc.
Keystone - Medicine Chest Pharmacies
Kinney Drugs, Inc.
Kmart Corporation
Knight Drugs Inc.
Kopp Drug, Inc.
The Kroger Co.
Lewis Drugs, Inc.
Longs Drug Stores
Marc Glassman Inc.
Marah Drug Stores, Inc.

May's Drug Stores, Inc.
McKay Drugs
Med-X Corporation
Medic Drug
Medicap Pharmacies, Inc.
Medicine Shoppe International, Inc.
Meijer, Inc.
Monahan Pharmacy Inc.
Navarro Discount Pharmacies
NeighborCare Pharmacies
Nelson's Drug Stores
Nortex Drug Distributors Inc.
dba Drug Emporium
Osborn Drugs, Inc.
Owl Drug Stores Inc.
Parkway Drugs
Pathmark Stores, Inc.
Pelton's Drug Stores
The Penn Traffic Company
Phar-Mor, Inc.
Pharmhouse Corp.
Price-Less Drug Stores, Inc.
Publix Super Markets, Inc.
Quick Chek Food & Pharmacy
Randalls Food & Drugs, Inc.
Retired Persons Services, Inc.
Revco D.S., Inc.
Ricky's
Rite Aid Corporation
Ritzman Pharmacies, Inc.
Rock Bottom Stores, Inc.
Rx Plus
RxD Pharmacies Inc.
Safeway Inc.
Sav-Mor Drug Stores

Sav-On Drugs
Savco Drugs, Inc.
Save Mart Supermarkets
Seaway Food Town, Inc.
Service Discount Food & Drugs Inc.
Shaw's Supermarkets
Shelly's Pharmacy, Inc.
Shopko Stores, Inc.
Smith's Food and Drug Centers
Snyder's Drug Stores, Inc.
Star Markets Company, Inc.
The Stop & Shop Supermarket Company
Super D Drugs Inc.
Super Save Drugs, Inc./Owl Pharmacies
SUPERVALU Pharmacies, Inc.
Target Stores, A div. of Dayton Hudson Corp.
Thriftway Drugs
Thrifty White Stores
TOPS MARKETS, INC.
USA Drug
Valco Drug Stores
The Vons Companies, Inc.
Wakefern Food Corp./ShopRite
Wal-Mart Stores, Inc.
Walgreen Co.
Weatherwax Drug Stores
L.F. Widmann, Inc.

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APR 30 1997,

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No. 96-1470

IN THE

SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF *AMICUS CURIAE* and BRIEF OF *AMICUS CURIAE* THE AMERICAN FREE TRADE ASSOCIATION IN SUPPORT OF PETITIONER

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MOTION FOR LEAVE TO FILE BRIEF *AMICUS CURIAE*

AFTA respectfully moves for leave to file the brief *amicus curiae* submitted with this motion. *Amicus* has received consent from counsel for petitioner but not from counsel for respondent.

Amicus seeks to file its brief to make three points not addressed in the principal briefs:

1. Traditional theories of legal interpretation of case law and statute have been violated by the Ninth Circuit's decision. Issues of "full value" and Congressional intent are important to future decisions. These deviations from

past precedent infuse a high degree of uncertainty in the market place.

2. The parallel market which is directly affected by this decision is a huge market affecting many sectors of the United States economy. The many members of the *amicus*, which are involved in a wide variety of businesses nationwide, are faced with substantial insecurity in the conduct of their business. This insecurity is having a substantial effect on the national economy as a result.

3. A new international scheme for intellectual property enforcement and declining trade barriers is being established which is inconsistent with the protective nature of the present decision.

Since the members of the *amicus* associations conduct business throughout the United States, including the states covered by the Ninth Circuit, they are directly exposed to the consequences of this decision. *Amicus* faces serious financial and legal consequences if this decision is allowed to stand unchanged. Accordingly, *amicus* respectfully suggests that its brief will present to "the Court relevant matter not already brought to its attention by the parties. . ." (Rule 37.1)

For the above reasons *amicus* asks that this motion be granted.

Respectfully submitted,

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BRIEF OF *AMICUS CURIAE* THE AMERICAN FREE TRADE ASSOCIATION IN SUPPORT OF PETITIONER

INTEREST OF THE *AMICUS CURIAE*

The American Free Trade Association ("AFTA") is an incorporated trade association of independent American importers, distributors and wholesalers of parallel import fragrances, grooming products and cosmetics. Many of the Association's members are small businesses that are located throughout the United States and employ hundreds of American citizens.

Parallel imports, sometimes also referred to as "gray market" goods, are genuine trademarked consumer products, such as fragrances, cosmetics, hair and body care products, cameras, electronic products, and watches, which are typically manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world.

The *amicus* has a vital stake in the outcome of this case, and itself and some of its members have filed previous *amicus* briefs on similar issues.[1] The instant challenge under the Copyright Act is just one prong of a full-scale attack by some manufacturers who are attempting to eliminate the legitimate and beneficial competition presented by the parallel importation and re-importation of their own products. This is a strategy that has been unsuccessful through the use of trademark and patent rights.

[1] *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986); *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 486 U.S. 1042 (1988); *Bell and Howell: Mimiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), *cert. denied*, 479 U.S. 950 (1987); *Johnson & Johnson Products, Inc. v. DAL International Trading Co.*, 798 F.2d 100 (3d Cir. 1986); *Sebastian International, Inc. v. Consumer Contracts, Ltd.*, 847 F.2d 1093 (3d Cir. 19866); *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 334 (S.D. Fla. 1985).

SUMMARY OF THE ARGUMENT

The Ninth Circuit and the Third Circuit are in direct conflict in their interpretation of the relationship between the first sale doctrine found in 17 U.S.C. §109 and the import restriction found in 17 U.S.C. §602. According to the Ninth Circuit below, absent permission of the U.S. copyright holder, the importation and subsequent distribution of foreign bought products bearing a U.S. copyright constitutes infringement, even when the copyright owner itself has already sold the same goods and earned a return on that sale. The Court concluded that the first sale doctrine does not apply to products imported into the United States. In other words, the copyright owner has a complete and absolute right to control importation of products bearing his or her copyright even if he has previously sold the copy of the product and made a profit from the sale. Such an expansive interpretation effectively abolishes the first sale doctrine for foreign bought products bearing U.S. copyrights, engenders market manipulation and is inconsistent with analogous decisions under our patent and trademark laws.

By contrast, the Third Circuit in *Sebastian International v. Consumer Contacts Ltd., infra,* held that the first sale by a copyright holder extinguishes the copyright regardless of the place of sale. This is the better rule, since it preserves the traditional balance between the copyright holder's right to earn a just return and the policy against unduly restricting free alienation of property.

The Ninth Circuit's reading of a location of sale requirement into the copyright laws is simply unwarranted and unsupported by the statutory text or legislative history. The first sale doctrine, although codified, "finds its roots in the common law aversion to limiting the alienation of personal property." *Sebastian, infra.* Although the copy-

right law has undergone enormous changes since its original enactment, at no point has Congress chosen to modify the language of the statute to incorporate a territorial restriction for the first sale doctrine. The Ninth Circuit's interpretation of the statute's relation to the import restriction is therefore not consistent with Congressional intent and expands the import restriction beyond its proper scope.

Finally, this decision significantly impacts the *amicus curiae*, American consumers and the American economy. By adopting an interpretation at odds with other Circuits, the Ninth Circuit renders *amicus* open to contradictory and inconsistent legal liability and undermines their ability to market and distribute nationally. The *amicus curiae* strongly urge the Court to grant *certiorari* on this important national issue.

ARGUMENT

I.
THE NINTH CIRCUIT IS IN DIRECT CONFLICT WITH THE THIRD CIRCUIT.

The Ninth Circuit's decision in the instant case is in express and direct conflict with the Third Circuit's decision in *Sebastian International, Inc. v. Consumer Contacts, Ltd.*, 847 F.2d 1093 (3d Cir. 1988). The conflict arises from the differing interpretation of the relationship between 17 U.S.C. §602(a) ("the import restriction") and 17 U.S.C. §109(a) ("the first sale doctrine"). The Ninth Circuit below determined that the First Sale doctrine does not apply to goods imported into the United States because, in its opinion, to do otherwise would render §602 meaningless. In so ruling the Ninth Circuit recognized that it was in express conflict with the ruling

in *Sebastian*. ("We decline to follow the approach taken by the Third Circuit in Sebastian").

The Third Circuit's ruling in *Sebastian* is clearly inconsistent and irreconcilable with the ruling in this case since in it the Court states that "the **place of sale is not the critical factor** in determining whether section 602(a) governs." *Sebastian*, 847 F.2d at 1099. (emphasis added) The first sale of a copy of the product "by the copyright owner extinguishes any right later to control the importation of those copies." *Id.* Furthermore, *Sebastian* expressly contradicts the holding that an infringement was committed upon importation of the foreign purchased product since it states that "a first sale by the copyright holder extinguishes any right later to control importations of those copies." *Id.*

Our patent and trademark laws have followed a reasoning similar to that in *Sebastian*. The patent monopoly is deemed waived with respect to a particular patented item once it is sold whether it is sold domestically or abroad. *See, Kabushiki Kaisha Hattori Seiko v. Refac Dev. Corp.*, 690 F. Supp. 1339 (S.D.N.Y. 1988). Similarly, this Court has recognized that trademarked goods purchased abroad or domestically from the trademark holder or a related company may be freely imported into this country and resold consistent with the Tariff Act. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988).

Despite the Ninth Circuits' efforts to find a new approach to justify its decision,[2] it is easily apparent upon review that the ruling in *Sebastian* is reasonable and can be consistently read with legal precedent dealing with copyright and other areas of intellectual property

[2] Compare *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 120 L.Ed.2d 873 (1992) with *Parfums Givenchy v. Drug Emporium*, 38 F.3d 477.

law. The valid purpose of excluding genuine product for which the copyright owner has not received a reward, such as stolen goods, serves as sufficient independent purpose for §602 without invalidating the long standing principle set forth in §109. Moreover, such a reading would be consistent with new economic integration and free trade treaties recently signed by our government. It is important and essential that this Court grant *certiorari* and review the decision below.

II.
THE UNUSUAL LEGAL, ECONOMIC, AND POLICY SIGNIFICANCE OF THE INSTANT DECISION JUSTIFIES *CERTIORARI* REVIEW.

The parallel market has existed and grown in the United States for a great many years. *See, K Mart.* It is both a significant entity in its own right, as well as an important source of affordable quality merchandise for U.S. consumers. Over the course of the last 50 years a very careful balance has been created to protect the legitimate interests of intellectual property right holders to receive compensation for their efforts without encouraging obstacles to free trade competition. To allow copyright owners to exploit §602 to engage in discriminatory price manipulation in different national markets defeats efforts at free competition and trade. The Ninth Circuit decision not only upsets this delicate balance, it also promotes the immediate nationwide disruption, and possible destruction, of the parallel market. This raises serious legal, economic and policy considerations which this Court should address.

A. Legal Considerations.

1. Unwarranted Inquiry into Value of Exchange.

While the import restriction in §602 was certainly designed to provide at least some greater protection for the copyright holder, nothing on the face of the statute suggests that it is intended to allow a copyright holder to restrain trade, after he has received a "reward" for his copyright. When a copyright holder directly or through a related company sells a work overseas, he is receiving his fair "reward." The mere importation of a work by the purchaser does not mean that the copyright holder did not receive a "reward" for his copyright. *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 344 (S.D. Fla. 1985); *Red Baron Franklin Park v. Taito Corp.*, 9 U.S.P.Q. 2d 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 175 (4th Cir. 1989), *cert. den.*, 493 U.S. 1058 (1990); *Sebastian International*, 847 F.2d 1093 at 1099. This legitimate importation is the business of the parallel market.

It is a basic maxim of contract law that "the adequacy of consideration is not a proper subject for judicial scrutiny." E. Allan Farnsworth, FARNSWORTH ON CONTRACTS, 99 (1990). The Ninth Circuit itself affirmed this general principle with regards to Copyright sales in *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.2d 1143 (9th Cir. 1996) where it held that when a copyright owner consents to the sale of a product bearing his or her copyright it constitutes a valid first sale regardless of the value received by the copyright owner. The Ninth Circuit's new ruling in this case overturning *Denbicare* and challenging whether the consideration justified the exchange opens a Pandora's box for factual inquiries in millions of copyright transactions. How can the purchaser, distributor or reseller know if he or she paid enough to satisfy the

Ninth Circuit that the copyright owner received his fair value for the product? Clearly this legal morass is one which the court should avoid.

2. Forum Shopping.

A second legal concern raised by the present state of affairs is the invitation to forum shopping created by the split in the jurisdictions. As will be argued below, the Ninth Circuit has clearly become the forum of choice for Copyright owners and licensees who wish to discourage national competition by legitimate parallel market importers. The split between the circuits permits this strategic selection of forums and increases market uncertainty.

B. Economic Considerations.

1. Economic Impact of Parallel Market.

Ths parallel market represents a significant portion of the U.S. economy, involving practically the entire range of consumer products. In terms of fragrances which are closely related in sales and market to the products which are the subject of the instant litigation, industry lobbying organizations estimate that 25% of the market consists of parallel merchandise. *Unable to Protect Product Trademarks, Manufacturers Copyright the Boxes,* NEW YORK TIMES, November 24, 1994. In total, the parallel market constitutes a multi-billion dollar industry nationwide. *Circuit Prohibits Import of Gray-Market Goods,* THE NATIONAL LAW JOURNAL, January 27, 1997. Hair care products, however, are only a small portion of a large industry which includes cosmetics, household goods, games and home electronics. In short, we doubt that Respondent will dispute the economic significance of the industry at issue.

2. Uncertainty in the Market Place.

We likewise doubt that Respondent would dispute the potential immediate nationwide impact of the Ninth Circuit decision. Within less than a month after the previous Ninth Circuit decision on this subject matter, *Parfums Givenchy v. Drug Emporium, Inc.,* 38 F.3d 477 (9th Cir. 1994), Givenchy filed suit against K Mart Corporation, Sears Roebuck & Co., Wal-Mart Stores, Inc., Marshall's Inc., Loehmann's, Inc., and six other defendants. *Parfums Givenchy, Inc. v. K Mart, et al.,* Case No. 94-7647, United States District Court for the Central District of California. This litigation, which was filed against essentially all of the major discount retailers in the United States, sought a permanent nationwide injunction preventing the distribution and sale of the brand perfume at issue. *See also, Estee Lauder v. Wal-Mart,* Case No. CV 94-3277 (C.D. Cal. 1994) (Seeking an injunction under the same copyright theory.) These actions were settled prior to trial due to the inflexible nature of the Ninth Circuit court's rulings with regards to parallel market resellers. Since these actions numerous other claims and threatened claims have followed in the Ninth Circuit including the present claim.

Based on the present decision and its predecessors, the Ninth Circuit's interpretation of the law can affect not just a nationwide restriction on the parallel market for hair care products, but for the entire range of consumer products. A decision which has the potential to destroy an entire industry of this economic significance deserves a most thorough review.

C. Policy Considerations.

Cases which involve serious policy considerations which alter long-standing interpretations of statutes and threaten to damage broad national markets should be decided by Congress. The ruling below, because of its implication to the entire parallel market, raises "serious policy considerations [which] weigh on both sides of this debate." *Parfums Givenchy v. Drug Emporium, Inc.*, 38 F.3d at 481 n.6. Other Courts have recognized these considerations in similar areas of law and refused to enter anti-competitive rulings. The packages of hair care products at issue and their contents could have been protected with a patent or a trademark. In each instance, however, Congress and the courts have rejected the application of these doctrines to the exclusion of legitimate parallel market merchandise. *See K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Kabushiki Kaisha Hattori Seiko v. Refac Technology Dev. Corp.*, 690 F. Supp. 1339 (S.D.-N.Y. 1988).

This support for free competition was evidenced in the reaction of Congress to the decision in *Red Baron*, 9 U.S.P.Q. 2d 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989), *cert. den.*, 493 U.S. 1058. That case dealt with the purchase overseas, of a foreign made, copyrighted article, initially sold by the foreign copyright holder which was related to the U.S. copyright holder. The District Court refused to grant in injunction, finding that the "first-sale" by the related copyright holder under §109 overrode the import restriction in Section 602. *Id.* The Circuit Court overturned this decision, not based upon the import restriction, but rather based on the fact that the public use of the copyrighted material violated the "performance right." *Id.* 883 F.2d at 281.

In 1990, Congress specifically amended the copyright statute to overturn the effect of the ruling in *Red Baron*. See P.L. 101-650 §103 and discussion in 1990 U.S. CODE CONG. & ADMIN. NEWS 6935, 6945. Although Congress created certain exceptions to the "first-sale" doctrine, it did not choose to modify the interpretation employed by the *Red Baron* District Court. This creates a presumption that Congress accepted the conclusions of the District Court that §602 does not supersede the first sale doctrine, which should now enjoy the force and effect of law. *Merrill Lynch, Pierce, Fenner & Smith v. Curran*, 456 U.S. 353 (1982); *Wehrly v. United States*, 808 F.2d 1311 (9th Cir. 1986). We should not presume that Congress did a useless thing. *Nobel v. TVA*, 892 F.2d 1013 (Fed. Cir. 1989); NORMAN J. SINGER, SUTHERLAND STATUTORY CONSTRUCTION, §49.11, at 83 (5th ed. 1992).

The Ninth Circuit below rejects this argument on the basis that, "in amending §109(e) [first sale doctrine], Congress was concerned about the relationship between the first sale doctrine and §106(4), not the relationship between the first sale doctrine and §602(a)." Despite its present posture, the Ninth Circuit has previously stated that Congress is deemed to know existing case law to which it is addressing legislation since "[w]e may fairly presume that Congress is aware of the common-law background against which it legislates[.]" *Chappell v. Robbins*, 73 F.3d 918 (9th Cir. 1996); *see also, Nordgren v. Burlington N. R.R.*, 101 F.3d 1246 (8th Cir. Minn. 1996), *reh'g. en banc denied, Nordgren v. Burlington N. R.R.*, 1997 U.S. App. LEXIS 800 (8th Cir. Jan. 16, 1997); *Roche Prods. v. Bolar Pharmaceutical Co.*, 733 F.2d 858 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 856 (1984); *Webster v. City of Houston*, 689 F.2d 1220 (5th

Cir. 1983). More significantly, if Congress had shared the Ninth Circuit's view it would have resolved the issues under both 106(4) and 602 by amending the statute to limit §109 as suggested.

Thus the actions of Congress in 1990 should be read as affirming the lower court opinion in *Red Baron* and the holding of the Third Circuit in *Sebastian*. Since, at worst, the Congress acquiesced to those decisions, the observation of the Third Circuit in 1988 is especially pertinent:

> This twist has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that **the controversy over "gray market" goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.**

Sebastian, 847 F.2d at 1099. (emphasis added)

CONCLUSION

For the foregoing reasons, this Court should grant the petition and issue a writ of certiorari to the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

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No. 96-1470

Supreme Court, U.S.
FILED
AUG 6 1997

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,

Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

JOINT APPENDIX

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PETITION FOR WRIT OF CERTIORARI FILED MARCH 17, 1997
WRIT OF CERTIORARI GRANTED JUNE 2, 1997

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OPINION, UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT [APPENDIX A TO PETITION FOR WRIT OF CERTIORARI]

RELEVANT DOCKET ENTRIES

United States District Court
Central District of California
(Western Division)

Civil Docket For Case #: 94-CV-841

Termed Appeal A0279

L'Anza Research Intl
v.
Quality King Inc, et al

2/7/94	1	Complaint (Summons(es) issued) (ca) [Entry date 02/08/94]
4/26/94	12	1st Amended Complaint [1-1] by plaintiff; adding Hanif Mr; summons issued (yt) [Entry date 04/27/94]
6/20/94	19	Return of proof of service of summons on 1st A/C executed upon defendant Quality King Inc by certified mail on 6/2/94 with return receipt attached (yt) [Entry date 06/21/94]

6/20/94	20	Return of proof of service of summons and 1st A/C executed upon defendant Bob Pace by certified mail on 6/2/94 with return receipt attached (yt) [Entry date 06/21/94]
6/21/94	22	Stipulation and Order extg time for deft Drug Emporium, Inc to resp to complaint for 30 days by Judge J. S. Letts (yt) [Entry date 06/29/94]
6/27/94	23	Notice of Motion and Motion by defendant Vons Companies Inc, defendant Longs Drug Stores, defendant Longs Drug Stores CA to dismiss or in the alt for a more definite statement; motion hearing set for 1:00 8/29/94 (yt) [Entry date 06/29/94]
6/27/94	24	Memo in Suppt by defendant Vons Companies Inc, defendant Longs Drug Stores, defendant Longs Drug Stores CA to motion to dismiss (23-1) (yt) [Entry date 06/29/94]
6/28/94	25	Declaration of Bub-Joo Lee by defendant Vons Companies Inc, defendant Longs Drug Stores, defendant Longs Drug Stores CA to motion to dismiss [23-1] (yt) [Entry date 06/29/94]

7/5/94	26	Joinder by defendant Quality King Inc joining motion to dismiss [23-1] Joinder (yt) [Entry date 07/28/94]
7/5/94	27	Declaration of Melodie K. Larsen by defendant Quality King Inc re [26-1] (yt) [Entry date 07/28/94]
7/20/94	28	Joinder by defendant Drug Emporium Inc joining motion to dismiss [23-1] Joinder (yt) [Entry date 08/12/94]
8/15/94	29	Memorandum by plaintiff L'Anza Research Intl in support of opposition to motion to dismiss [23-1] (yt) [Entry date 08/16/94]
8/15/94	30	Declaration of Robert De Lanza and John K. McKasson by plaintiff L'Anza Research Intl re [23-1] (yt) [Entry date 08/16/94]
8/25/94	31	Notice of joinder in stip & order rescheduling hrg by defendant Quality King Inc (yt) [Entry date 08/29/94]
8/25/94	32	Stipulation and Order by Judge J. S. Letts re-setting hearing on motion to dismiss [23-1] 1:00 9/26/94 (yt) [Entry date 08/29/94]

9/15/94	33	Minutes: vacating hearing re motion to dismiss [23-1] by Judge J. S. Letts CR: NA (yt) [Entry date 09/22/94]
9/21/94	34	Declar of Daniel J. Tyukody, Jr in suppt by defendant Vons Companies Inc, defendant Longs Drug Stores, defendant Longs Drug Stores CA to motion to dismiss [23-1] (yt) [Entry date 09/22/94]
9/21/94	35	Memo in suppt by defendant Vons Companies Inc, defendant Longs Drug Stores, defendant Longs Drug Stores CA to motion to dismiss [23-1] (yt) [Entry date 09/22/94]
9/23/94	36	Objections and motn to strike defts untimely reply in suppt of motns to dism by plaintiff L'Anza Research Intl (yt) [Entry date 10/05/94]
9/26/94	37	Minutes: Informal stat conf held by Judge J. S. Letts CR: NA (yt) [Entry date10/05/94]
11/9/94	38	Stipulation and Order by Judge J. S. Letts dismissing party Drug Emporium Inc w/prej (Ent 11/10/94) (yt) [Entry date 11/10/94]

1/9/95	41	Order by Judge J. S. Letts establishing DCO 3/15/95; pretrial conference on 9:00 4/18/95; jury trial set on 8:00 4/6/95 (yt) [Entry date 02/25/95]
1/26/95	39	Order by Judge J. S. Letts that the motn to dism the copyright infringement and contributory copyright infringement claims be denied; the motn to stay pendent stat law claims be denied; the motn to dism the intentional interference with contract and intentional interference with prospective economic advantage claims be granted w/lv to amend and the motn to dism the unfair competition under Business & Professional Code section 17000 et seq. claim be granted w/lv to amd (ENT 1/30/95) mld cpy & ntc (yt) [Entry date 01/30/95]
2/6/95	42	Notice of association of cnsl by plaintiff L'Anza Research Intl (yt) [Entry date 03/06/95]
2/14/95	40	Answer by defendant Quality King Inc to [12-1]; jury demand (yt) [Entry date 02/16/95]
3/16/95	48	Exhibit list by defendant Quality King Inc (yt) [Entry date 03/22/95]

3/16/95	49	Witness list submitted by defendant Quality King Inc (yt) [Entry date 03/22/95]
3/16/95	50	Memo of Contentions of Fact and Law by defendant Quality King Inc (yt) [Entry date 03/22/95]
3/20/95	51	Notice of Discrepancy and Order by Judge J. S. Letts that the ntc of motn & motn for an order is rejected and retn to cnsl (yt) [Entry date 03/22/95]
3/20/95	52	Declarations in supp of motn for an order specifying issues that exist w/o substantial controversy by plaintiff L'Anza Research Intl (yt) [Entry date 03/22/95]
3/28/95	53	Notice of Motion and Motion by plaintiff L'Anza Research Intl for order specifying issues that exist w/o substantial controversy; motion hearing set for 1:00 4/17/95 (yt) [Entry date 03/31/95]
3/28/95	54	Amended Declaration of Robert De Lanza by plaintiff L'Anza Research Intl re [53-1] (yt) [Entry date 03/31/95]

3/28/95	55	Memo of Contentions of Fact and Law by plaintiff L'Anza Research Intl (yt) [Entry date 03/31/95]
3/28/95	56	Exhibit list by plaintiff L'Anza Research Intl (yt) [Entry date 03/31/95]
3/28/95	57	Memorandum by plaintiff L'Anza Research Intl in support of motion for order specifying issues that exist w/o substantial controversy [53-1] (yt) [Entry date 03/31/95]
3/28/95	58	Witness list submitted by plaintiff L'Anza Research Intl (yt) [Entry date 03/31/95]
3/31/95	60	Stipulation and Order by Judge J. S. Letts; pretrial conference on 9:00 5/5/95 ; jury trial set on 9:00 5/16/95 (yt) [Entry date 04/10/95]
4/3/95	61	Statement of disputed facts in opposition to motn [for] order specifying issues w/o substantial controversy by defendant Quality King Inc (yt) [Entry date 04/10/95]
4/3/95	62	Opposition by defendant Quality King Inc to motion for order specifying issues that exist w/o substantial controversy [53-1] (yt) [Entry date 04/10/95]

4/3/95	63	Objections to declars fld in suppt of motn for order specifying issues, etc by defendant Quality King Inc (yt) [Entry date 04/10/95]
4/4/95	59	Stipulation for voluntary dismissal as to deft The Vons Companies, Inc., a Michigan Corp only w/prej (Ent 4/5/95) mld cpy (yt) [Entry date 04/05/95]
4/4/95	64	Certificate of Service by defendant Quality King Inc of opposition to motion for order, etc (yt) [Entry date 04/11/95]
4/10/95	65	2nd Declaration of Robert De Lanza by plaintiff L'Anza Research Intl re [53-1] (yt) [Entry date 04/17/95]
4/10/95	66	Reply to Opposition by plaintiff L'Anza Research Intl to motion for order specifying issues that exist w/o substantial controversy [53-1] (yt) [Entry date 04/17/95]
4/12/95	67	Objections to 2nd declar of Robert De Lanza by defendant Quality King Inc (yt) [Entry date 04/27/95]
4/17/95	68	Minutes: granting motion for order specifying issues that exist w/o substantial controversy [53-1] by Judge J. S. Letts CR: Terry Kramer (yt) [Entry date 05/03/95]

5/1/95	69	Order by Judge J. S. Letts that plf L'anza Research International's motion for order specifying issues that exist w/o substantial controversy as to dft Quality King Distributors, Inc. [53-1] be GR. Crt reaches the following concls of law in this case: L'Anza owns all right, title, & interest in the U.S. copyright registration no. TXU593-178, effective 1/7; the first sale defense in 17 U.S.C. 109(a) of the Copyright Act does not bar liability as to Quality King, if otherwise proven, in this case. A written opinion providing a more specific stmt of the grounds for this decision will follow. (Ent 5/4/95) mld cpys & ntc. (gk) [Entry date 05/04/95]
5/1/95	70	Stipulation and Order by Judge J. S. Letts; pretrial conference cont on 8:00 5/9/95 (yt) [Entry date 05/09/95]
5/9/95	71	Suppl Memo of Contentions of Fact and Law by defendant Quality King Inc (yt) [Entry date 05/11/95]
5/9/95	72	Amendment by defendant Quality King Inc to [49-1] (yt) [Entry date 05/11/95]

5/9/95	73	Amendment by defendant Quality King Inc to [48-1] (yt) [Entry date 05/11/95]
5/9/95	74	Joint Exhibit list (yt) [Entry date 05/11/95]
5/9/95	75	Minutes: pretrial conf held 5/9/95 by Judge J. S. Letts CR: Terry Kramer (yt) [Entry date 05/16/95]
5/9/95	76	Amendment by plaintiff L'Anza Research Intl to [58-1] (yt) [Entry date 05/16/95]
5/9/95	77	Declaration of David Rippon by plaintiff L'Anza Research Intl re [53-1] (yt) [Entry date 05/16/95]
5/9/95	78	Memo of Contentions of Fact and Law by plaintiff L'Anza Research Intl (yt) [Entry date 05/16/95]
5/10/95	79	2nd Suppl Memo of Contentions of Fact and Law by defendant Quality King Inc (yt) [Entry date 05/16/95]
5/18/95	82	Stipulation re amount of damages (yt) [Entry date 05/23/95]
5/18/95	83	Joint Status Report (yt) [Entry date 05/23/95]

5/23/95	84	Amd Joint Status Report (yt) [Entry date 06/05/95]
6/9/95	85	Notice of Motion and Motion by plaintiff L'Anza Research Intl for permanent injunction against deft Quality King Distributors, Inc; motion hearing set for 1:00 7/24/95 **Filed Under Seal** (yt) [Entry date 06/14/95]
6/9/95	86	Memorandum by plaintiff L'Anza Research Intl in support of motion for permanent injunction against deft Quality King Distributors, Inc [85-1] ** Filed Under Seal ** (yt) [Entry date 06/14/95]
6/12/95	87	Notice of Discrepancy and Order by Judge J. S. Letts that the declar of John R. McKasson is rejected and retnd to cnsl (yt) [Entry date 06/29/95]
6/12/95	88	Declaration of John K. McKasson by Plaintiff re [85-1] ** Filed Under Seal** (yt) [Entry date 07/07/95]
7/7/95	89	Amended Order by Judge J. S. Letts granting motion for order specifying issues that exist w/o substantial controversy [53-1] (Ent 7/10/95) mld cpys & ntc (yt) [Entry date 07/10/95]

7/10/95	92	Oppo by defendant Quality King Inc to motion for permanent injunction against deft Quality King Distributors, Inc [85-1] (lori) [Entry date 07/25/95]
7/17/95	90	Reply Memo by plaintiff L'Anza Research Intl to motion for permanent injunction against deft Quality King Distributors, Inc [85-1] **Filed Under Seal** (yt) [Entry date 07/24/95]
7/17/95	91	2nd Declaration of John K. McKasson by plaintiff L'Anza Research Intl re [85-1] **Filed Under Seal** (yt) [Entry date 07/24/95]
7/24/95	94	Minutes: granting motion for permanent injunction against deft Quality King Distributors, Inc. [85-1] by Judge J. S. Letts CR: Terry Kramer (dh) [Entry date 07/28/95]
7/25/95	93	Order by Judge J. S. Letts tht Quality King and all those acting in active concert or participation with it are prohibited frm: importing any of the following L'anza hair cair products etc (see doc for fur details); fur ord tht Quality

		King may sent to L'anza any L'anza product in its orig carton tht it intensd to buy, seel or dispose etc (see doc for fur details) & terminating case. (Ent 7-26-95) MDJS6 mldcpys/ntc. (ab) [Entry date 07/26/95]
7/27/95	95	Objections to prop order for permanent injunction against deft Quality King by defendant Quality King Inc (yt) [Entry date 08/07/95]
8/28/95	--	Lodged/Proposed Jdmt (Fwd to CRD) (jc) [Entry date 09/06/95]
9/5/95	96	Request by plaintiff L'Anza Research Intl for judicial notice in suppt of jgm (jw) [Entry date 09/11/95]
9/28/95	97	Stipulation re amount of damages awarded to L'anza and against Quality King. (lk) [Entry date 09/29/95]
9/28/95	98	Judgment and Order: by Judge J. S. Letts that pla L'anza Research Intl shall recover of defendant Quality King Inc the sum of $132,616.00 with interest as provided by law; Furth Ord that Quality King is prohibited from: importing selling certain L'anza hair care prods. (Ent 9/29/95) mld cpys (lk) [Entry date 09/29/95]

10/2/95	99	Notice by defendant Quality King Inc of change of firm name (dh) [Entry date 10/11/95]
10/12/95	100	Notice of Appeal by defendant to 9th C/A from Dist. Court ord ent on 9/29/95. (cc: J. Larson Jaenicke: LaTorraca & Goettsch: John K. McKasson). Fee: Paid (app)
10/12/95	101	Transcript Designation and ordering form for dates 4/17/95, 7/24/95 CR: Terry Kramer (app)
10/12/95	102	Notice of undertaking fr supersedeas in amount of $198,924.00 Bond No. 6079049 from: Fidelity and Deposit of MD as to plaintiff L'Anza Research Intl (lc) [Entry date 10/20/95]
10/12/95	103	Declaration of Melodie K Larsen by defendant Quality King Inc re bond purs to loc rule 24.3.1 (lc) [Entry date 10/20/95] [Edit date 10/20/95]
10/26/95	104	Ntc of Bill of Costs Returnable submitted by plaintiff L'Anza Research Intl re [98-1]; bill of cost hearing set on 2:00 11/9/95 (lc) [Entry date 10/30/95] [Edit date 10/30/95]

10/26/95	105	Bill of Costs submitted by plaintiff L'Anza Research Intl re [98-1] (lc) [Entry date 10/30/95]
10/26/95	106	Declaration of John K McKasson re srv of jdmt by plaintiff L'Anza Research Intl (lc) [Entry date 10/30/95]
10/26/95	107	Objections by defendant Quality King Inc to bill of costs [105-1] (lc) [Entry date 10/30/95]
10/26/95	108	Notice of Discrepancy and Order plf bill of costs not timely be processed per Director R. Janisch (lc) [Entry date 10/30/95]
11/1/95	109	Notification by Circuit Court of Appellate Docket Number 95-56537 (fvap) [Entry date 11/03/95]
11/9/95	--	Lodged 9th C/A ord app w/be routinely accorded priority status. Applnts unopposed mot to expite id Denied. (app) [Entry date 11/20/95]
11/9/95	--	Costs taxed for plaintiff L'Anza Research Intl in the amount of $1,465.85 against defendant Quality King Inc (cc: all counsel); bill of cost hearing held (lc) [Entry date 12/05/95]

11/21/95	110	Receipt of Transcript of proceedings for the following date(s): 4/17/95, 7/24/95 (Re: [100-1]) CR: Terry Kramer (pjap) [Entry date 11/22/95]

GENERAL DOCKET FOR
Ninth Circuit Court of Appeals

Filed: 10/18/95

Court of Appeals Docket #: 95-56447
Nsuit: 3820 Copyright (Fed)
L'Anza Research, et al v. Quality King Inc.
Appeal from: Central District of California,
Los Angeles

10/18/95	Docketed Cause and Entered Appearances of Counsel. CADS Sent (Y/N): yes. setting schedule as follows: CADS is past due; CADS must be filed no later than 10/25/95; appellant's designation of RT is due 10/23/95; appellee's designation of RT is due 11/1/95; appellant shall order transcript by 11/13/95; court reporter shall file transcript in DC by 12/12/95; certificate of record shall be filed by 12/19/95; appellant's opening brief is due 1/29/96; appellees' brief is due 2/27/96; appellants' reply brief is due 3/12/96 [95-56447] (wp) [95-56447]
12/8/95	Filed certificate of record. RT filed in DC: 11/21/95. Schedule running. [95-56537] [95-56537] (jhc)
2/9/96	Received The American Free Trade Association as Amicus Curiae brief in support of reversal in 15 copies of 21 pages; deficient: (mt/pending Promo); served on 2/9/96 [95-56447] (gva) [95-56447]

2/12/96 Received Aplt's brief in 15 copies 39 pages (Informal: y) & 5 Exc. Rec. in 4 Vols.; deficient: (under seal); notified counsel (mtn is req); served on 2/9/96; response to brief deficiency notice due 2/26/96. (gva) [95-56447]

2/20/96 Filed PROMO motion and order (Deputy Clerk: cag) The American Free Trade Association's mtn for leave to file brief of amicus curiae on behalf of aplt, the proposed brief and any responsive filing shall be referred for disposition to the panel that considers the merits of the case. Any further request for leave to appear as amicus curiae shall be treated in a similar fashion. [2953434-1] (Motion recvd 2/8/96) (Note: mtn sent to Records by Promo) [95-56447] (rc) [95-56447]

3/27/96 Filed original and 15 copies Aple's 47 pages brief (in compliance w/R 32(e); 6 Supplemental Exc. Rec.; served on 3/26/96 (per 4/9/96 order) (per 4/25/95 filed Under Seal) [95-56447] (gva) [95-56447]

4/1/96 Received original and 15 copies, Amicus (The Beauty And Barber Supply Institute Inc.) brief of 12-pgs; served on 3/27/96; deficient: need mtn; Notified counsel. ** For Merits Panel ** (per 4/16/96 order) [95-56447] (rc) [95-56447]

4/11/96 Filed The Beauty & Barber Supply Institute Inc's motion for leave to file brief of amicus curiae; served on 4/10/96 ** For Merits Panel ** (Per 4/16/96 order) [2988708] (gva) [95-56447]

4/16/96 Filed order (Deputy Clerk: lp) The ct is in receipt of the mtn for leave to appear as amicus curiae filed by the Beauty and Barber Supply Institute, Inc. The mtn, amicus curiae br, and any response or related filings shall be referred for disposition to the panel that considers the merits of the case. The optional rpy remains due 4/29/96 pursuant to the oral extension of time. The clerk shall place a copy of the provided corporate disclosure statement into each amicus curiae br. [2988708-1] [2979059-1] [95-56447] (gva) [95-56447]

5/1/96 Received original & 15 copies Aplt's reply brief (Informal: n) of 25 pages in compliance w/Rule 32; served on 4/29/96; deficient: (under seal-mtn/Promo). [95-56447] (gva) [95-56447]

5/13/96 Filed motion & Appellate Commissioner order Promo: The ct is in receipt of aplt's mtn for leave to file the optional rpy br under seal. The mtn is granted. The rpy br is ordered filed under seal. The documents entitled "Pamphlet of Statutes . . . " submitted by the aplt shall be referred for disposition to the panel that considers the merits of the case. (mtn rcvd 5/1/96) [3005304-1] (Motion recvd) [95-56447] (gva) [95-56447]

5/13/96	Filed original and 15 copies Aplt's reply brief (Informal: n) 25 pages; served on 4/29/96 Under Seal. [95-56447] (gva) [95-56447]
5/13/96	Received Aplt's "Pamphlet of Statutes" served on 4/29/96 ** For Merits Panel ** (per 5/13/96 order) [95-56447] (gva) [95-56447]
5/29/96	Calendar material being prepared. [95-56447] (mw) [95-56447]
6/5/96	Calendared: PASA Aug 6 1996 9:00 am Courtroom 3 [95-56447] (aw) [95-56447]
7/29/96	Filed Quality King Inc. in 95-56447 additional citations, served on 7/29/96. (Panel) [95-56447] (rmw) [95-56447]
8/6/96	Argued and Submitted to Dorothy W. Nelson, Thomas G. Nelson, Sidney R. Thomas [95-56447] (rmw) [95-56447]
10/22/96	Filed Opinion: Affirmed (Terminated on the Merits after Oral Hearing; Affirmed; Written, Signed, Published W. Nelson, author; Thomas G. Nelson; Sidney R. Thomas) Filed and Entered Judgment. [95-56447] (gva) [95-56447]
11/5/96	Filed Appellee L'Anza Research in 95-56447 bill of costs, served on 11/4/96 [95-56447] (rc) [95-56447]

11/6/96	[3116097] Filed original and 40 copies Appellant Quality King Inc. petition for rehearing with suggestion for rehearing en banc. (Panel And All Active Judges.) 15 p.pages, served on 11/4/96 [95-56447] (rei) [95-56447]
11/18/96	Filed Appellant Quality King Inc. in 95-56447 response to bill of costs, served on 11/14/96 [95-56447] (rc) [95-56447]
12/16/96	Filed order (Dorothy W. Nelson, Thomas G. Nelson, Sidney R. Thomas): . . . The petition for rehearing is denied and the suggestion for rehearing en banc is rejected. [95-56447] (gva) [95-56447]
1/8/97	Mandate Issued. Costs taxed against Aplt: $780.40 [95-56447] (mlm) [95-56447]
1/9/97	Filed order (Deputy Clerk: mm) Upon due consideration of Aple's cost bill of costs and the objection thereto, Aple is granted costs on appeal in the amnt of $780.40. See Local R 39-1.2 for taxable costs. [95-56447] (ot) [95-56447]
3/21/97	Rec'd notice from Supreme Court; petition for certiorari filed. Supreme Court No. 96-1470; filed on 3/17/97. [95-56447] (jr) [95-56447]

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Attorneys for Plaintiff
L'anza Research International, Inc.,
a California corporation

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

L'ANZA RESEARCH INTERNATIONAL, INC., a California corporation,
Plaintiff,

vs.

QUALITY KING, INC., a New York corporation; BOB PACE, an individual; THE VONS COMPANIES, INC., a Michigan corporation; LONGS DRUG STORES CORPORATION, a Maryland corporation; LONGS DRUG STORES CALIFORNIA, INC., a California corporation; DRUG EMPORIUM, INC., a Delaware corporation; RANCHO DEL MAR PHARMACY, INC. dba VASSEY DRUGS, L. INTERTRADE, LTD., an entity of unknown form; and MR. HANIF, an individual,
Defendants.

CASE NO. CV-94 0841 JSL

FIRST AMENDED COMPLAINT FOR:

(1) COPYRIGHT INFRINGEMENT;
(2) CONTRIBUTORY COPYRIGHT INFRINGEMENT;
(3) INTENTIONAL INTERFERENCE WITH CONTRACT;
(4) INTENTIONAL INTERFERENCE WITH PROSPECTIVE ECONOMIC ADVANTAGE; AND
(5) UNFAIR BUSINESS PRACTICES

Plaintiff L'anza Research International, Inc. ("L'anza"), a California corporation, alleges:

1. This action arises under the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. This court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and 1338.

2. Venue is proper in this judicial district pursuant to 28 U.S.C. §1400.

3. At all times herein mentioned, plaintiff L'anza Research International, Inc. was and is a corporation duly organized and existing under the laws of the State of California, with its principal place of business at 935 West Eighth Street in Azusa, California 91702.

4. Plaintiff is informed and believes and thereon alleges that at all times herein mentioned, defendant L. Intertrade, Ltd. ("L. Intertrade") was and is an entity of unknown form organized and existing under the laws of Malta with its principal place of business in Malta and doing business in the State of California. Plaintiff is informed and believes and thereon alleges that defendant Mr. Hanif ("Hanif") is an individual who is believed to reside on the island of Malta or in the United Kingdom. L. Intertrade and Hanif have been transacting business in this judicial district through sales to defendant Quality King, Inc. ("Quality King") which in turn made sales to

retail stores located in this judicial district and elsewhere in the United States. Plaintiff is informed and believes and thereon alleges that L. Intertrade and Hanif have also been transacting business in this judicial district through participation in a conspiracy with co-conspirators in this judicial district and elsewhere to sell plaintiff's products ("L'anza hair care products") in this judicial district and elsewhere in violation of the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. Plaintiff is informed and believes and thereon alleges that L. Intertrade and Hanif have been transacting business in this judicial district by engaging in contributory copyright infringement in this judicial district in violation of the Copyright Act of 1976, 17 U.S.C. §101.

5. Plaintiff is informed and believes and thereon alleges that at all times herein mentioned, defendant Quality King was and is a corporation organized and existing under the laws of the State of New York with its principal place of business in the State of New York and doing business in the State of California. Quality King has been transacting business in this judicial district through sales to retail stores located in this judicial district and elsewhere in the United States. Plaintiff is informed and believes and thereon alleges that Quality King has also been transacting business in this judicial district through participation in a conspiracy with co-conspirators in this judicial district and elsewhere to sell plaintiff's products ("L'anza hair care products") in this judicial district and elsewhere in violation of the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. Plaintiff is informed and believes and thereon alleges that Quality King has been transacting business in this judicial district by engaging in contributory copyright infringement in this judicial district in violation of the Copyright Act of 1976, 17 U.S.C. §101.

6. Plaintiff is informed and believes and thereon alleges that at all times herein mentioned, defendant Bob Pace ("Pace") was and is a natural person and a citizen of the State of New York and doing business in the State of California. Plaintiff is informed and believes and thereon alleges that Pace has been transacting business in this judicial district through sales to retail stores located in this judicial district and elsewhere in the United States. Plaintiff is informed and believes and thereon alleges that Pace has also been transacting business in this judicial district through participation in a conspiracy with co-conspirators in this judicial district and elsewhere to sell L'anza hair care products in this judicial district and elsewhere in violation of the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. Plaintiff is informed and believes and thereon alleges that Pace has been transacting business in this judicial district by engaging in contributory copyright infringement in this judicial district in violation of the Copyright Act of 1976, 17 U.S.C. §101.

7. Plaintiff is informed and believes and thereon alleges that at all times herein mentioned, defendant The Vons Companies, Inc. ("Vons") was and is a corporation organized and existing under the laws of the State of Michigan with its principal place of business in and doing business in the State of California. Vons has been transacting business in this judicial district through the operation of retail stores located in this judicial district and elsewhere in the United States. Plaintiff is informed and believes and thereon alleges that Vons has also been transacting business in this judicial district through the participation in a conspiracy with co-conspirators in this judicial district and elsewhere to sell L'anza hair care products in this judicial district and elsewhere in violation of the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. Plaintiff is informed and believes and thereon

alleges that Vons has been transacting business in this judicial district by engaging in contributory copyright infringement in this judicial district in violation of the Copyright Act of 1976, 17 U.S.C. §101.

8. Plaintiff is informed and believes and thereon alleges that at all times herein mentioned, defendant Longs Drug Stores Corporation ("Longs") is and was a corporation organized and existing under the laws of the State of Maryland with its principal place of business in and doing business in the State of California. Longs has been transacting business in this judicial district through the operation of retail stores located in this judicial district and elsewhere in the United States. Plaintiff is informed and believes and thereon alleges that Longs has also been transacting business in this judicial district through the participation in a conspiracy with co-conspirators in this judicial district and elsewhere to sell L'anza hair care products in this judicial district and elsewhere in violation of the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. Plaintiff is informed and believes and thereon alleges that Longs has been transacting business in this judicial district by engaging in contributory copyright infringement in this judicial district in violation of the Copyright Act of 1976, 17 U.S.C. §101.

9. Plaintiff is informed and believes and thereon alleges that at all times herein mentioned, defendant Longs Drug Stores California ("Longs California") is and was a corporation organized and existing under the laws of the State of California with its principal place of business in and doing business in the State of California. Longs California has been transacting business in this judicial district through the operation of retail stores located in this judicial district and elsewhere in the United States. Plaintiff is informed and believes and thereon alleges that Longs California has also been

transacting business in this judicial district through participation in a conspiracy with co-conspirators in this judicial district and elsewhere to sell L'anza hair care products in this judicial district and elsewhere in violation of the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. Plaintiff is informed and believes and thereon alleges that Longs California has been transacting business in this judicial district by engaging in contributory copyright infringement in this judicial district in violation of the Copyright Act of 1976, 17 U.S.C. §101.

10. Plaintiff is informed and believes and thereon alleges that at all times herein mentioned, defendant Drug Emporium, Inc. ("Drug Emporium") is and was a corporation organized and existing under the laws of the State of California with its principal place of business in and doing business in the State of California. Drug Emporium has been transacting business in this judicial district through the operation of retail stores located in this judicial district and elsewhere in the United States. Plaintiff is informed and believes and thereon alleges that Drug Emporium has also been transacting business in this judicial district through participation in a conspiracy with co-conspirators in this judicial district and elsewhere to sell L'anza hair care products in this judicial district and elsewhere in violation of the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. Plaintiff is informed and believes and thereon alleges that Drug Emporium has been transacting business in this judicial district by engaging in contributory copyright infringement in this judicial district in violation of the Copyright Act of 1976, 17 U.S.C. §101.

11. Plaintiff is informed and believes and thereon alleges that at all times herein mentioned, defendant Rancho Del Mar Pharmacy, Inc. dba Vassey Drugs ("Vassey") is a corporation organized and existing under

the laws of the State of California with its principal place of business in and doing business in the State of California. Plaintiff is informed and believes and thereon alleges that Vassey has been transacting business in this judicial district through participation in a conspiracy with co-conspirators in this judicial district and elsewhere to sell L'anza hair care products in this judicial district and elsewhere in violation of the Copyright Act of 1976, 17 U.S.C. §101 *et seq*. Vassey has been transacting business in the State of California through the operation of retail stores located in the State of California. Plaintiff is informed and believes and thereon alleges that Vassey has been transacting business in this judicial district by engaging in contributory copyright infringement in this judicial district in violation of the Copyright Act of 1976, 17 U.S.C. §101.

12. Plaintiff is the exclusive maker and seller of L'anza hair care products in the United States and the remainder of the world. These products include, but are not limited to, the following L'anza hair care products: Super Quatre; Multi-Mist; Lavenda; Biotane; Vitro; Remede; Curls & Color Moisture Treatment; Curls & Color Moisturizing Shampoo; Re-Balance Leave-In Conditioner; Re-Balance Shampoo Plus; and Re-Balance Styling Foam.

13. The L'anza hair care products are only offered for sale in professional hair care salons and professional beauty colleges. Each of these products are packaged in bottles the outside of which contains two dimensional designs and identifying marks and other copyrightable material ("the copyrighted material"). The copyrighted material also contains, and has contained since the products were first marked, notice that the material is subject to copyright protection.

14. All of the copyright material was created by the employees of L'anza for the purpose of marketing

L'anza hair care products in a manner which demonstrates their uniqueness and high quality.

15. The copyrighted material is copyrightable material under the laws of the United States.

16. The United States copyright for the copyrighted material was duly registered to L'anza by the United States copyright office as registration No. TXU593-178, effective January 7, 1994 ("L'anza's copyright"). A true and correct copy of the registration certificate is attached hereto as Exhibit "A."

17. Defendants L. Intertrade and Hanif represented to L'anza and its distributor in the United Kingdom that they desired to distribute L'anza products solely in Malta and possibly Libya and solely through the authorized channels of distribution which are professional beauty salons and colleges and professional barber salons and colleges ("the authorized channels of distribution"). L. Intertrade and Hanif also represented and agreed in their contract with L'anza and/or its distributor in the United Kingdom that they would not make sales of L'anza products outside of their territory which was Malta and possibly Libya, and also they would not make sales outside of the authorized channels of distribution, as defined above.

18. At the time that L. Intertrade and Hanif made the above representations to L'anza and its distributor in the United Kingdom, they did not in fact intend to keep the representations, but rather had already planned through the use of a conspiracy with the other defendants herein to divert the L'anza products outside of their territory and outside of the authorized channels of distribution. In fact, at the time the above representations were made, L'anza alleges, upon information and belief, that L. Intertrade and Hanif had already made arrangements to import the L'anza products to the United States for sale outside of the authorized channels of distribution.

19. L'anza and its United Kingdom distributor relied upon the misrepresentations by L. Intertrade and Hanif by agreeing to make L. Intertrade and Hanif a L'anza distributor in Malta and possibly Libya and further allowing L. Intertrade and Hanif to purchase L'anza products in the United Kingdom for sale in Malta and possibly Libya.

20. L. Intertrade and Hanif did not keep their agreement with L'anza and L'anza distributor in the United Kingdom, but rather immediately imported all of the product that was sold to them in the United Kingdom to the United States.

21. But for the misrepresentations by L. Intertrade and Hanif, L'anza would not have sold L. Intertrade and Hanif L'anza products in the United Kingdom or allowed L. Intertrade or Hanif to become a L'anza distributor covering the territory of Malta and possibly Libya.

22. Upon information and belief, defendants, and each of them, have infringed, contributorily infringed, and been engaged in a conspiracy to infringe L'anza's copyright through the sales of products containing the aforementioned copyrighted material in this judicial district and other areas in the United States.

23. Upon information and belief, defendants Hanif, L. Intertrade, Quality King and Pace, acting for themselves and as conspirators for the remaining defendants, purchased products containing the copyrighted material outside of the United States and imported them into the United States.

24. Upon information and belief, pursuant to the above-mentioned conspiracy, Quality King and Pace then sold the products with the copyrighted material to defendants Vons, Longs, Longs California, Drug Emporium and Vassey, and each of them, and Vons,

Longs, Longs California, Drug Emporium and Vassey, and each of them, have been selling items containing the copyrighted material in this judicial district and other areas.

25. The activities referred in paragraphs 1 through 24 above were, and are, without the consent or permission of plaintiff or any authorized agent of plaintiff.

FIRST CLAIM
(For Copyright Infringement Against All Defendants)

26. Plaintiff refers to paragraphs 1 through 25, inclusive, of this complaint and incorporates them by reference as though set forth fully herein.

27. Defendants, and each of them, willfully violated and conspired to willfully violate plaintiff's exclusive rights under 17 U.S.C. §§106, 501 and 602 to reproduce and distribute the copyrighted material in the United States.

28. L'anza has suffered damages as a result of the infringement referred to in paragraph 27.

29. Defendants, and each of them, have received profits as a result of the infringement referred to in paragraph 21.

30. The unauthorized infringement and use by defendants of the copyrighted material, unless enjoined, will cause irreparable harm, damage and injury to L'anza in that the sale of these reproductions of L'anza's copyrighted material has severely damaged and continues to damage the value of the copyrighted material by diluting the market and destroying the distinctiveness of the copyrighted material and its identity as L'anza's exclusive property.

SECOND CLAIM
(For Contributory Copyright Infringement Against All Defendants)

31. Plaintiff refers to paragraphs 1 through 30, inclusive, of this complaint and incorporates them by reference as though set forth fully herein.

32. Defendants, and each of them, willfully contributorily violated and conspired to willfully violate plaintiff's exclusive rights under 17 U.S.C. §§106, 501 and 602 to reproduce and distribute the copyrighted material in the United States.

33. L'anza has suffered damages as a result of the contributory infringement referred to in paragraph 32.

34. Defendants, and each of them, have received profits as a result of the contributory infringement referred to in paragraph 32.

35. The unauthorized contributory infringement and use by defendants of the copyrighted material, unless enjoined, will cause irreparable harm, damage and injury to L'anza in that the sale of these reproductions of L'anza's copyrighted material has severely damaged and continues to damage the value of the copyrighted material by diluting the market and destroying the distinctiveness of the copyrighted material and its identity as L'anza's exclusive property.

THIRD CLAIM
(For Intentional Interference With Contract and Conspiracy Against All Defendants)

36. Plaintiff hereby incorporates paragraphs 1 through 35, inclusive, of this complaint as though fully set forth herein.

37. L'anza markets its products through exclusive distributorship agreements with its distributors which provide that the distributor may only sell the L'anza products through the authorized channels of distribution.

38. On the label on every L'anza product, it is clear that the product is only to be resold through the authorized channels of distribution.

39. Defendants are knowingly, intentionally and improperly interfering with these distributorship agreements by engaging in a conspiracy to induce L'anza's distributors to breach their distributorship agreements with L'anza by selling L'anza products to defendants so defendants may resell the L'anza products outside of the authorized channels of distribution. Defendants' conspiracy has also been engaged in setting up false L'anza distributors and/or inducing individuals to become L'anza distributors so that these individuals can then divert L'anza products to defendants in violation of the distributorship contract between the individuals and L'anza. Defendants have engaged in the conspiracy while being fully informed that the acts they are inducing L'anza's distributors to engage in violate the distributors' contractual obligations to L'anza. Defendants' conspiracy specifically set up a false distributorship to divert L'anza product called L. Intertrade.

40. As a result of these wrongful acts, L'anza's reputation and sales have been substantially damaged. It has also been required to repurchase some of the products which were imported into the United States and sold without L'anza's permission. In addition, L'anza's ability to retain its U.S. distributors and its authorized channels of distribution in the U.S. has been severely impaired by this wrongful importation of L'anza's product acquired abroad through fraud.

41. Plaintiff is informed and believes and thereon alleges that defendants performed the above-mentioned

acts and engaged in the above-mentioned conspiracy for the express purpose of injuring L'anza and its distributors and/or in conscious disregard of L'anza's distributorship agreements. As a further proximate result of the above-mentioned acts by defendants, L'anza has been deprived of its patronage of a large number of actual and potential customers. The aforementioned acts by defendants were willful, malicious, fraudulent and oppressive and done with a conscious disregard of L'anza's rights under its distributorship agreements and therefore entitle L'anza to an award of punitive and exemplary damages.

FOURTH CLAIM

(For Intentional Interference With Prospective Economic Advantage and Conspiracy Against All Defendants)

42. Plaintiff hereby incorporates paragraphs 1 through 41, inclusive, of this complaint as though fully set forth herein.

43. Defendants are intentionally and improperly interfering with L'anza's prospective economic advantage by engaging in a conspiracy to induce L'anza's distributors to breach their distributorship agreements with L'anza by selling L'anza products to defendants so defendants may resell the L'anza products outside of the authorized channels of distribution. Defendants' diversion and illegal importation conspiracy is also interfering with L'anza's prospective economic advantage by wrongfully making it costly and unprofitable for the distributors to comply with the terms of their distributorship agreements.

44. As a result of these wrongful acts, L'anza's reputation and sales have been substantially damaged. It has also been required to repurchase products which

were illegally imported into the United States and sold outside of the authorized channels of distribution at a substantial cost. In addition, L'anza's ability to retain its U.S. distributors and its U.S. authorized channels of distribution has been severely impaired by this wrongful importation and sale of L'anza products.

45. Plaintiff is informed and believes and thereon alleges that defendants performed the above-mentioned acts and engaged in the above-mentioned conspiracy for the express purpose of injuring L'anza and its U.S. distributors and/or in a conscious disregard of L'anza's prospective economic advantage. As a further proximate result of the above-mentioned acts by defendants, L'anza has been deprived of its patronage of a large number of actual and potential customers. The aforementioned acts by defendants were willful, malicious, fraudulent and oppressive and done with a conscious disregard of L'anza's prospective economic advantage and therefore entitle L'anza to an award of punitive and exemplary damages.

FIFTH CLAIM
(For Unfair Competition Under Business & Professions Code §17000 *et seq.* and Conspiracy Against All Defendants)

46. Plaintiff hereby incorporates paragraphs 1 through 45, inclusive, of this complaint as though fully set forth herein.

47. The previously alleged wrongful conduct and conspiracy to engage in wrongful conduct by defendants, and each of them, constitutes unfair competition under Business & Professions Code §17000, *et seq.*

48. Plaintiff is informed and believes, and thereon alleges, that defendants performed the above-mentioned

acts and engaged in the above-mentioned conspiracy for the express purpose of injuring L'anza and its U.S. distributors and/or with a conscious disregard of the possibility of injuring L'anza and its distributors.

49. The above-mentioned acts were intentionally and wrongfully done in a malicious, oppressive and fraudulent attempt to injure L'anza, and have substantially damaged L'anza.

WHEREFORE, plaintiff L'anza Research International Inc. prays as follows:

AS TO THE FIRST AND SECOND CLAIMS:

1. That this court issue temporary, preliminary and permanent injunctions prohibiting defendants, and each of them, and their agents and servants from infringing, contributorily infringing or conspiring to infringe plaintiff's copyright in any manner and from publishing, selling, marketing or otherwise disposing of any reproductions of the copyrighted material in the United States;

2. That this court order defendants, and each of them, to deliver up to be impounded during the pendency of this action all reproductions of the copyrighted material in their possession or in their control;

3. That this court enter judgment in favor of L'anza for (a) the amount of the damages that L'anza has suffered as a result of defendants' infringement, contributory infringement and conspiracy to infringe of L'anza's copyright, and all gains, profits and advantages derived by defendants, and each of them, from their infringement, contributory infringement and conspiracy to infringe L'anza's copyright; or, at L'anza's option, (b) such damages as the court shall deem proper under the provisions of the copyright statutes;

4. That this court allow L'anza to recover the costs of this action, including L'anza's reasonable attorney's fees; and

5. That this court allow and provide such other and further relief for L'anza as the court may deem just and proper.

AS TO THE THIRD, FOURTH, AND FIFTH CLAIMS:

6. Compensatory damages in the amount of $300,000;

7. For exemplary and punitive damages;

8. For various costs of suit herein; and

9. Such other and further relief as the court deems just and proper.

DATED: April 26, 1994.

/s/ John K. McKasson
John K. McKasson, a Member of
LaTORRACA and GOETTSCH
A Law Partnership
Attorneys for Plaintiff L'anza
Research International, Inc.,
a California corporation

[EXHIBIT A OMITTED IN PRINTING]

J. Larson Jaenicke [State Bar No. 73876]
Melodie K. Larsen [State Bar No. 110819]
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Attorneys for Defendant
Quality King Distributors, Inc.

FILED
FEB 14, 1995
Clerk, U.S. District Court
Central District of California
By Deputy

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

[TITLE OMITTED IN PRINTING]

CASE No. CV-94 0841 JSL

ANSWER OF QUALITY KING DISTRIBUTORS, INC. TO FIRST AMENDED COMPLAINT; DEMAND FOR JURY TRIAL

Defendant Quality King Distributor, Inc. ("defendant") admits, denies and alleges as follows:

ALLEGATIONS COMMON TO ALL CLAIMS

1. Admitted.

2. Admitted.

3. Defendant admits that L'anza Research International, Inc. ("L'anza") is doing business in the State of

California. Except as so admitted, defendant is without information or belief sufficient to answer the remaining allegations in Paragraph 3 and on that basis denies each of them.

4. Defendant denies that it participated in a conspiracy with L. Intertrade, Ltd., Mr. Hanif, and/or anyone to violate Copyright laws. Defendant also denies that L. Intertrade, Ltd. is doing business through defendant. Except as so denied, defendant is without information or belief sufficient to answer the remaining allegations in Paragraph 4 and on that basis denies each of them.

5. Defendant admits that it is a corporation organized and existing under the laws of the State of New York; that its principal place of business is in the State of New York; that it does business in the State of California; and that it sells various products to retail stores in this judicial district and in the United States. Except as so admitted, defendant denies each of the allegations in Paragraph 5.

6. Defendant admits that defendant Bob Pace is a natural person. Defendant denies it conspired with any defendant to sell L'anza products in violation of the Copyright Act or that it engaged in contributory copyright infringement (or copyright infringement) in violation of the Act. Except as so admitted and denied, defendant is without information or belief sufficient to answer the remaining allegations in Paragraph 6 and on that basis denies each of them.

7. Defendant is informed and believes that The Vons Companies, Inc. ("Vons") is doing business and operates retail stores in the State of California. Defendant denies that it conspired with any defendant to sell L'anza products in violation of the Copyright Act or that it engaged in contributory copyright infringement (or copyright infringement) in violation of the Act. Except as stated above, defendant is without information or

belief sufficient to answer the remaining allegations in Paragraph 7 and on that basis denies each of them.

8. Defendant is informed and believes that Longs Drug Stores Corporation ("Longs") is doing business and operates retail stores in the State of California. Defendant denies that it conspired with any defendant to sell L'anza products in violation of the Copyright Act or that it engaged in contributory copyright infringement (or copyright infringement) in violation of the Act. Except as stated above, defendant is without information or belief sufficient to answer the remaining allegations in Paragraph 8 and on that basis denies each of them.

9. Defendant is informed and believes that defendant Longs Drug Stores California ("Longs California") is doing business in the State of California. Defendant denies that it conspired with any defendant to sell L'anza products in violation of the Copyright Act or that it engaged in contributory copyright infringement (or copyright infringement) in violation of the Act. Except as stated above, defendant is without information or belief sufficient to answer the remaining allegations in Paragraph 9 and on that basis denies each of them.

10. Defendant is informed and believes that Drug Emporium, Inc. ("Drug Emporium") is doing business in the State of California. Defendant denies that it conspired with any defendant to sell L'anza products in violation of the Copyright Act or that it engaged in contributory copyright infringement (or copyright infringement) in violation of the Act. Except as stated above, defendant is without information or belief sufficient to answer the remaining allegations in Paragraph 10 and on that basis denies each of them.

11. Defendant denies that it conspired with any defendant to sell L'anza products in violation of the Copyright Act or that it engaged in contributory copyright infringement (or copyright infringement) in

violation of the Act. Except as stated above, defendant is without information or belief sufficient to answer the remaining allegations in Paragraph 11 and on that basis denies each of them.

12. Defendant admits that plaintiff sells L'anza hair care products. Except as so admitted, defendant is without information or belief sufficient to answer the remaining allegations in Paragraph 12 and on that basis denies each of them.

13. Denied.

14. Defendant is without information or belief sufficient to answer the allegations in Paragraph 14 and on that basis denies each of them.

15. Defendant is without information or belief sufficient to answer the allegations in Paragraph 15 and on that basis denies each of them.

16. Defendant is without information or belief sufficient to answer the allegations in Paragraph 16 and on that basis denies each of them.

17. Defendant is without information or belief sufficient to answer the allegations in Paragraph 17 and on that basis denies each of them.

18. Defendant is without information or belief sufficient to answer the allegations in Paragraph 18 and on that basis denies each of them.

19. Defendant is without information or belief sufficient to answer the allegations in Paragraph 19 and on that basis denies each of them.

20. Defendant is without information or belief sufficient to answer the allegations in Paragraph 20 and on that basis denies each of them.

21. Defendant is without information or belief sufficient to answer the allegations in Paragraph 21 and on that basis denies each of them.

22. Denied.

23. Denied.

24. Denied.

25. Denied.

FIRST CLAIM
(For Copyright Infringement Against All Defendants)

26. Defendant incorporates by reference as though set forth in full herein its responses to Paragraphs 1 through 25, inclusive.

27. Denied.

28. Denied.

29. Denied.

30. Denied.

SECOND CLAIM
(For Contributory Copyright Infringement Against All Defendants)

31. Defendant incorporates by reference as though set forth in full herein its responses to Paragraph 1 through 30, inclusive.

32. Denied.

33. Denied.

34. Denied.

35. Denied.

AFFIRMATIVE DEFENSES

FIRST AFFIRMATIVE DEFENSE TO ALL CLAIMS FOR RELIEF
(Failure To State A Claim)

36. The complaint, and each and every one of plaintiff's claim for relief, does not allege facts sufficient to state a claim for relief against defendant.

SECOND AFFIRMATIVE DEFENSE TO ALL CLAIMS FOR RELIEF
(First Sale Doctrine)

37. The complaint, and each and every one of plaintiff's claims for relief, are barred by the first sale doctrine in § 109 (a) of the Copyright Act.

THIRD AFFIRMATIVE DEFENSE TO ALL CLAIMS FOR RELIEF
(Unclean Hands)

38. The complaint and every one of plaintiff's claims for relief are barred by plaintiff's unclean hands.

FOURTH AFFIRMATIVE DEFENSE TO ALL CLAIMS FOR RELIEF
(Laches)

39. The complaint and every one of plaintiff's claims for relief are barred by the doctrine of laches.

FIFTH AFFIRMATIVE DEFENSE TO ALL CLAIMS FOR RELIEF
(Estoppel)

40. By its words and conduct, plaintiff is estopped from asserting every one of the claims for relief in the complaint.

SIXTH AFFIRMATIVE DEFENSE TO ALL CLAIMS FOR RELIEF
(Misuse of Copyright)

41. The complaint and every one of plaintiff's claims for relief are barred by plaintiffs misuse of its alleged copyright.

SEVENTH AFFIRMATIVE DEFENSE TO CLAIMS FOR RELIEF
(Other Action Pending)

Plaintiff's complaint, and each and every one of plaintiff's claims for relief, should be stayed and abated because there are actions pending in state courts in Colorado and California involving the same or similar claims.

EIGHTH AFFIRMATIVE DEFENSE TO ALL CLAIMS FOR RELIEF
(Failure to Properly Register Copyright)

Plaintiff's complaint, and each and every one of plaintiff's claims for relief, are barred because plaintiff's purported Certificate of Registration is defective and invalid.

WHEREFORE, defendant prays for judgment as follows:

1. That plaintiff take nothing by reason of its complaint and that the complaint be dismissed against defendant;

2. That defendant be awarded its costs of suit herein; and

3. For such other and further relief as the court may deem just and proper.

DATED: February 14, 1995

RINTALA, SMOOT, JAENICKE
& BRUNSWICK
J. Larson Jaenicke
Melodie K. Larsen

By /s/ Melodie K. Larsen
Melodie K. Larsen
Attorneys for Defendant
Quality King Distributors, Inc.

DEMAND FOR JURY TRIAL

Defendant Quality King Distributors, Inc. hereby demands a jury trial.

/s/ Melodie K. Larsen
Melodie K. Larsen
Attorneys for Defendant
Quality King Distributors, Inc.

[PROOF OF SERVICE OMITTED IN PRINTING]

JOHN K. McKASSON, Bar No. 138194
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Attorneys for Plaintiff
L'anza Research International, Inc.,
a California corporation

FILED
MAR 28, 1995
Clerk, U.S. District Court
Central District of California

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

NOTICE OF MOTION AND MOTION FOR AN ORDER SPECIFYING ISSUES THAT EXIST WITHOUT SUBSTANTIAL CONTROVERSY

DATE: April 17, 1995
TIME: 8:00 a.m.
PLACE: Courtroom "4" of the
Honorable J. Spencer Letts,
United States District Judge

PRETRIAL CONFERENCE DATE:
April 6, 1995
TIME: 8:00 a.m.

TO ALL PARTIES AND TO THEIR ATTORNEYS OF RECORD:

PLEASE TAKE NOTICE that on April 17, 1995 at 8:00 a.m., or as soon thereafter as the matter may be heard, in Courtroom "4" of the Honorable J. Spencer Letts, United States District Judge, located at 111 North Hill Street, Los Angeles, California, plaintiff L'anza Research International, Inc. ("L'anza"), move the court for an order specifying issues that exist without substantial controversy.

The motion for an order specifying issues that exist without substantial controversy is made on the grounds that there is no genuine triable issue of material fact as to the following issues raised by the complaint and that L'anza is entitled to an order that the following issues are without substantial controversy, as a matter of law:

1. Quality King infringed L'anza's copyright (Copyright Office Registration No. TXU53-178) when it sold L'anza hair care products containing the copyrighted material that had been imported into the United States without L'anza's permission in violation of 17 U.S.C. §602(a); and

2. The first sale defense in 17 U.S.C. §109(a) does not shield Quality King from liability in this case.

This motion is based upon Rule 56 of the Federal Rules of Civil Procedure; this notice of motion and motion; the memorandum of points and authorities and the amended declaration of Robert De Lanza served and filed herewith; the declarations of Robert De Lanza, Robert Hall, Trevor Wayne Attenborough, John K. McKasson, Donald H. Graves and Derrol Estrella, lodged and served on March 16, 1995, and filed on March 20, 1995; the pleadings, records and files in this action; such supplemental memorandum of points and

authorities as may be subsequently filed herein; and such oral and documentary evidence as may be presented at the hearing of this motion.

DATED: March 24, 1995.

/s/ John K. McKasson
John K. McKasson, a Member of
LaTORRACA and GOETTSCH
A Law Partnership
Attorneys for Plaintiff L'anza
Research International, Inc.,
a California corporation

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Attorneys for Plaintiff
L'anza Research International, Inc.,
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FILED
MAR 20, 1995
Clerk, U.S. District Court
Central District of California

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

DECLARATIONS OF JOHN K. McKASSON, ROBERT DE LANZA, DERROL ESTRELLA, ROBERT HALL, DONALD H. GRAVES AND TREVOR WAYNE ATTENBOROUGH IN SUPPORT OF MOTION FOR AN ORDER SPECIFYING ISSUES THAT EXIST WITHOUT SUBSTANTIAL CONTROVERSY

DATE: April 6, 1995
TIME: 8:00 a.m.
PLACE: Courtroom "4" of the
Honorable J. Spencer Letts,
United States District Judge
PRETRIAL CONFERENCE DATE: April 6, 1995
TIME: 8:00 a.m.

Plaintiff L'anza Research International ("L'anza") respectfully submits the within declarations of John K. McKasson, Robert De Lanza, Derrol Estrella, Robert Hall, Donald H. Graves, and Trevor Wayne Attenborough in support of its motion for an order specifying issues that exist without substantial controversy.

[DECLARATIONS OF JOHN K. McKASSON, ROBERT DE LANZA AND DERROL ESTRELLA OMITTED IN PRINTING]

DECLARATION OF ROBERT HALL

I, ROBERT HALL, declare:

1. I am the president of plaintiff L'anza Research International, Inc. ("L'anza"). I have been L'anza's president since July 1993. Prior to being the president, I was the executive vice president for the years of 1988 through 1993. My responsibilities as president and executive vice president included overseeing, under the direction of Robert De Lanza, L'anza's former president and now Chairman of the Board, all operations of L'anza, both in the United States and internationally.

2. In this regard, I am intimately familiar with, and have been instrumental in, developing and maintaining L'anza's marketing strategy including, but not limited to, insuring that L'anza's products are only sold through professional beauty salons and professional beauty colleges.[1]

3. I am also intimately familiar with the damage that is caused to L'anza's channels of distribution, overall sales volume, reputation and image by unauthorized

[1] All references to beauty salons and beauty colleges are meant to include barber salons and barber colleges.

importation and sale of L'anza's products in the United States to unapproved retailers such as drug stores and grocery stores.

4. Since L'anza's inception in 1985, its products have only been authorized for sale by its distributors to professional beauty salons and professional beauty colleges. L'anza controls the distribution of its products by including provisions in its distributorship agreements preventing the distributors from selling L'anza's products to any retailers except professional beauty salons and professional beauty colleges. L'anza has also been able to limit the sale of its products to professional beauty colleges and professional beauty salons by including provisions in its distributorship agreements allowing L'anza to seek immediate injunctive relief in the event any L'anza products are sold by a distributor to any retailer other than a professional beauty college or a professional beauty salon. Attached hereto as Exhibit "J" are true and correct copies of excerpts from L'anza's various lengthy distributorship contracts for the years 1989 through 1993. Although there are minor changes in wording, all of the contracts included the above-described limitations on the sales of L'anza's products.

5. L'anza also, in order to track any potential diversion, marks its products in a manner that allows the products located in a particular retail establishment to be traced back through the chain of distribution.

6. The reason that L'anza only allows its products to be sold to professional beauty colleges and professional beauty salons are as follows: First, it has been L'anza's experience, and my own experience, that very high quality products including human hair keratin, such as are sold by L'anza, may only be effectively and profitably marked if they are sold exclusively through professional beauty colleges and professional beauty salons. It has been L'anza's experience, and my

experience, that if such products are also sold through grocery stores or drug stores, the public will not perceive them as high quality products. Further, it has been L'anza's experience, and my own, that the public is generally unwilling to pay the price charged for high quality products, such as L'anza's products, when they are sold along with the less expensive lower quality products that are generally carried by supermarkets and drug stores.

7. The second reason that L'anza limits the sales of its products to professional beauty colleges and beauty salons is its belief that the full effect of its products will not be experienced by a consumer unless the consumer is given hands-on instruction on the proper use of the products by a trained professional. The reason that this is the case is that unlike the ordinary shampoos, conditioners, and other hair care products that are sold in supermarkets and drug stores, L'anza's products are more complicated and their application requires more care and often more steps. Thus, L'anza only allows its products to be sold through professional beauty colleges and professional beauty salons since, if the products are not sold by one of those two types of establishments, the ultimate consumer will not be given hands-on instruction on how to properly and most effectively use the products and therefore may not experience the maximum potential benefit from L'anza's products. This often results in diminishing the consumer's perception of the products.

8. Finally, L'anza limits the sales of its products to professional beauty salons and professional beauty colleges to be certain that the retailers carrying L'anza products offer for sale an entire series or line of L'anza products. This is important because L'anza products are made so that they work in conjunction with and compliment certain other L'anza products in that line or series of L'anza products. Retailers other than professional

salons and professional beauty colleges often do not carry an entire line or series and, thus, the consumer suffers because he or she will not have the opportunity to purchase and benefit from the other complementary products in the line or series.

9. Moreover, so that the professionals at the professional beauty salons and professional beauty colleges that sell L'anza's products understand how to properly apply and use the products, L'anza requires that its distributors conduct extensive training programs for the professional beauty salons and professional beauty colleges. L'anza often sponsors these events and provides incentive for the distributors to conduct these training seminars. L'anza generally requires its distributors to spend a substantial portion of their time training professionals on the proper use and application of L'anza's products. In addition, L'anza has retained a number of national representatives to instruct its distributors on the proper use and application of L'anza's products.

10. When L'anza's products are, without authorization, imported into the United States and then sold in unauthorized channels of distribution, L'anza is injured in a number of very significant ways.

11. First, L'anza's image as an exclusive product that is only available through professional beauty salons and professional beauty colleges is eroded. This actually happens quite quickly because as soon as consumers observe that the products are available in supermarkets and drug stores, their perception of L'anza as an exclusive product which is only available through professional beauty salons and professional beauty colleges is immediately eliminated.

12. Second, the unauthorized importation and sale of L'anza's products makes it more difficult for L'anza's distributors to sell L'anza's products to professional

beauty salons and professional beauty colleges because the sales through the supermarkets and drug stores tend to flood the market and leave the salon and beauty college owners with unsalable inventory.

13. Finally, since the unauthorized importation and sale of L'anza's products through supermarkets or drug stores does not allow for consumers to be given hands-on instruction, they may not achieve the maximum possible benefit from L'anza's products. Further, as noted, these unauthorized and untrained retailers often do not carry an entire line or series of L'anza products. This has the effect of further eroding L'anza's reputation for only selling high quality products.

14. In order to counteract the above-described harm, L'anza incurs many times the amounts of the products that are imported and sold in promotional activities, advertising and seminars to rebuild L'anza's image in the areas to which the products are wrongfully imported and sold.

15. L'anza has never authorized anyone to import its products into the United States or to sell imported L'anza products in the United States.

16. L'anza has never waived its rights under the copyright and trademark laws to prohibit the unauthorized importation and sale of its products.

I declare under penalty of perjury under the laws of the United States of America and the State of California that the foregoing is true and correct.

Executed this 15th day of March, 1995, at Azusa, California.

/s/ ROBERT HALL
ROBERT HALL

[EXHIBIT OMITTED IN PRINTING]

[DECLARATION OF DONALD H. GRAVES]

I, Donald H. Graves declare:

1. I have personal knowledge of the following facts and could and would testify competently thereto.

2. I was the Manager of Vessey Drugs at all times during the transaction dealing with the L'Anza products subject of the lawsuit *L'Anza v Quality King, Inc. et al.*, United States District Court, Central District of California Number CV-94 0841 JSL.

3. The goods in question were purchased in September, 1993 from Quality King. The purchase consisted of seven (7) dozen assorted pieces.

4. The order was solicited by Quality King and not initiated by me or other member of the staff of Vessey Drugs.

5. After some sales the remaining L'Anza product on hand was returned to Quality King on February 28, 1994.

6. Since that one transaction, Vessey Drugs has not ordered any more L'Anza product from Quality King or any other source.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct, and that this declaration is executed on March 13, 1995 at Watsonville, California.

/s/ DONALD H. GRAVES
DONALD H. GRAVES

DECLARATION OF TREVOR WAYNE ATTENBOROUGH

I, TREVOR WAYNE ATTENBOROUGH, declare:

1. I am a marketing director of plaintiff L'anza Research International ("L'anza"). I have been the art director, marketing director and/or advertising director of L'anza since June 1989. I have personal knowledge of the following facts, and I could, and would, competently testify thereto if called upon to do so.

2. In my capacity as L'anza's marketing director, my responsibilities have included orchestrating and monitoring L'anza's advertising program which focuses heavily upon the United States market. L'anza advertises in various trade magazines on a monthly basis. L'anza also engages in promotional and merchandising advertising at point of sale and editorial advertising in consumer magazines.

3. Almost all of L'anza's advertising depicts or shows L'anza's products including the names of the products which are subject to trademark protection. The product depicted also includes material that has copyright protection.

4. The reason L'anza's advertisements almost without exception include copies of its products is that seeing the products in advertisements allows the consumer or potential consumer to recognize the product easily.

5. Attached hereto as Exhibit "F" are true and correct copies of various advertisements run by L'anza in the magazine American Salon in the months January through November of 1993, featuring L'anza's products.

6. Attached hereto as Exhibit "G" are true and correct copies of various advertisements run by L'anza in the magazine American Salon, in the months January through November of 1992, again featuring L'anza's products.

7. Attached hereto as Exhibit "H" are true and correct copies of various advertisements run by L'anza in the magazine American Salon, in the months January through June of 1991, again featuring L'anza's products.

8. Attached hereto as Exhibit "I" are true and correct copies of various advertisements run by L'anza in the magazine American Salon, in the months February through December of 1990, again featuring L'anza's products.

I declare under penalty of perjury under the laws of the United States of America and the State of California that the foregoing is true and correct.

Executed this 17 day of February, 1994, at Azusa, California

/s/ TREVOR WAYNE ATTENBOROUGH
TREVOR WAYNE ATTENBOROUGH

[EXHIBITS OMITTED IN PRINTING]

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Attorneys for Plaintiff
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FILED
MAR 28, 1995
Clerk, U.S. District Court
Central District of California

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

AMENDED DECLARATION OF ROBERT DE LANZA IN SUPPORT OF MOTION FOR AN ORDER SPECIFYING ISSUES THAT EXIST WITHOUT SUBSTANTIAL CONTROVERSY

DATE: April 17, 1995
TIME: 8:00 a.m.
PLACE: Courtroom "4" of the
Honorable J. Spencer Letts,
United States District Judge

PRETRIAL CONFERENCE DATE:
APRIL 6, 1995
TIME: 8:00 A.M.

DECLARATION OF ROBERT DE LANZA

I, ROBERT DE LANZA, declare:

1. I am the founder and chairman of the Board of Directors of plaintiff L'anza Research International ("L'anza"). I have personal knowledge of the following facts, and I could, and would, competently testify thereto if called upon to do so.

2. L'anza is what is commonly referred to as an "S corporation" with the sole shareholders being me and my wife, Krystyna De Lanza.

3. As is noted in detail in the declaration of L'anza's president, Robert Hall, L'anza only allows its distributors to sell its products to professional beauty colleges, professional beauty salons, professional barber colleges, and professional barber salons.

4. L'anza's products are marked in a manner that allows certain bottles in any particular shipment of L'anza's products to be traced back through the chain of distribution. This is done to allow L'anza to make certain that its products are not being diverted and to assist L'anza in tracing any potential diversion back to its source. L'anza ordinarily markets through distributors; however, it markets directly to consumers at trade shows and other professional hair care events and markets directly to salons and colleges in the Los Angeles area, where its headquarters is located.

5. On or about February 14, 1994, I received via Federal Express a package containing L'anza products and receipts for the purchases of the products from Darrol Estrella of Salon Technologies, the L'anza distributor in Northern California. The package from Mr. Estrella contained the following L'anza products that he purchased from defendant Rancho Del Mar Pharmacy, Inc. dba Vessey Drugs ("Vessey Drugs"), in

Aptos, California: (1) two 10-ounce Super Quatre Spray; (2) one 10-ounce Multi Mist; and (3) two 10-ounce Remede Shampoo. Attached hereto as Exhibit "A" is a true and correct copy of the receipt forwarded by Mr. Estrella reflecting these purchases of L'anza products that he made from Vessey Drugs in Aptos, California on February 12, 1994.

6. The Federal Express package forwarded by Mr. Estrella also contained the following L'anza products that Mr. Estrella purchased from Vessey Drugs in Carmel, California: (1) two 10-ounce Styling Foam; (2) two 10-ounce Super Quatre Spray; and (3) two 10-ounce Multi Mist. Attached hereto as Exhibit "B" is a true and correct copy of the receipt for the purchase of these products forwarded by Mr. Estrella reflecting the purchases that he made from Vessey Drugs in Carmel, California on February 12, 1994.

7. A true and correct copy of the Federal Express receipt accompanying the package sent by Mr. Estrella and received by me on February 14, 1994, is attached hereto as Exhibit "C" and as Exhibits "E" and "F" to Mr. Estrella's declaration.

8. By comparing the markings on several of the L'anza products that were forwarded by Mr. Estrella with L'anza's internal records, I was able to determine that those products were imported into the United States from a country in the Mediterranean called Malta and specifically a company called L. Intertrade Limited. I was also able to determine that these products were sold to L. Intertrade Limited by a master L'anza distributor in the United Kingdom. This importation of L'anza products into the United States from Malta was done without permission from L'anza or any agent of L'anza and was also an express violation of the agreement between the master L'anza distributor in the United Kingdom and L. Intertrade Limited.

9. Three separate shipments of L'anza products invoiced through the United Kingdom distributor were sold by the United Kingdom distributor to L. Intertrade Limited. The shipments of these products by L'anza were dated November 23, 1992, May 19, 1993 and December 17, 1993. The shipment dated November 23, 1992 was shipped on terms of net 30 days in accordance with a letter of credit. Thus, with regard to this shipment, L'anza did not and could not have received any payment for the goods until long after they left the country and, in fact, had arrived at their destination. A true and correct copy of the invoice and the internal L'anza documentation referencing the letter of credit is attached hereto and incorporated herein as Exhibit "K." The second shipment dated May 19, 1993, was also done through a letter of credit, only the terms were net 60 days. Therefore, as to this shipment, L'anza also could not and did not receive payment for any of the goods in question until long after they had left the country and, in fact, the relevant documentation had been presented to collect on the letter of credit. True and correct copies of the invoice and internal document referencing the letter of credit are attached hereto and incorporated herein as Exhibit "L." With regard to the December 17, 1993 shipment, this shipment was sent cash on delivery. Therefore, L'anza was not and could not have been paid until after the goods had arrived at their destination and cash was presented in exchange for the goods. A true and correct copy of the invoice from the December 17, 1993 shipment reflecting that the terms were cash on delivery is attached hereto and incorporated herein as Exhibit "M."

10. The products that were sold by L'anza's distributors in the United Kingdom to L. Intertrade Limited for sale in Malta and possibly Libya, were never sold by L'anza or anyone else in the United States prior to their sale by L'anza's distributor in the United Kingdom to Malta. Instead, L'anza products, as a general practice, were shipped by L'anza to its United Kingdom distributor and then its United Kingdom distributor turns around and sells the products to its own distributors which, at the time of the sales, included L. Intertrade Limited. Thus, the L'anza products which are the subject of this action were never sold in the United States by L'anza or any other party until they were reimported by defendants.

11. Forty percent (40%) of the stock of the distributors in the United Kingdom is currently owned by my wife and I. As noted above, we are also the owners of L'anza Research International, Inc. which is held as an S corporation. In addition, at the time the transactions occurred that are at issue, the distributorship in the United Kingdom was in its formation stage and therefore no stock had been issued. It had been agreed between myself and Krystyna, on the one hand, and the persons in charge of the United Kingdom distributor who were setting up the company, David and Valerie Rippon, on the other hand, that Krystyna and I would own a substantial percentage of distributorship whether in partnership or shares of stock, if we incorporated. Thus, at the time the transactions in question occurred, the United Kingdom distributor was in essence a partnership with my wife and I being substantial partners in that partnership which ultimately translated to a 40% interest.

12. With regard to the shipments to the United Kingdom distributor, it was never my intention nor the intention of L'anza that title to the L'anza products

being shipped to the United Kingdom distributor for resale to Malta and other locations, would pass in any way in the United States. Instead, it was always my intention, and I believe the intention of everyone else involved in the transactions, that possession, custody, control and title of the goods would pass when the goods arrived in the United Kingdom and the United Kingdom distributor paid in cash for those goods, or on transactions done by letter of credit, provided the shipper with the relevant documents. It was never my intention, nor the intention of L'anza to transfer anything to the United Kingdom distributor which would limit L'anza's ability to prevent reimportation of the products and we did not transfer possession, custody, control or title at any time before the products were delivered to the United Kingdom.

13. The importation of this product, in addition to causing numerous other problems, deprives L'anza of the value of its copyrights. This is, in part, because of the difference between the price that L'anza charges for products sold to distributors located in the United States ("U.S. distributors") and the price that L'anza charges for products sold to distributors located outside of the United States ("foreign distributors") whose sales are limited to certain areas that do not include the United States. One of the primary reasons for the distinction in price is that L'anza spends a great deal of time, effort and money in promoting its products in the United States and has established a widespread high quality chain of distribution for its products through professional hair care salons and professional hair care colleges. L'anza's advertising in the United States in the last several years is described in detail in the declaration of Trevor Wayne Attenborough.

14. Consequently, the prices L'anza charges its distributor in the United Kingdom are 35 to 40 percent lower (depending on the product) than the prices it charges its U.S. distributors for the same products. As a result, the products which are the subject of this action that were imported into the United States after being sold by L'anza's distributor in the United Kingdom to L. Intertrade Limited were sold to L'anza's distributor in the United Kingdom at a 35% to 40% discount on the prices charged by L'anza to its U.S. distributors for the same products during the same period of time.

15. As a result, when a party imports L'anza products into the United States for sale, the party is, in effect, depriving L'anza of a portion of the value of its copyrights. In essence, the grey market importer of L'anza products, including L'anza's copyrighted material, receives the benefit of the advertising dollars spent in the United States market by L'anza without having to pay for that element of the cost of the products.

16. In addition, the sales of these products in the United States hampers the sales by L'anza's U.S. distributors because the products, including the copyrighted material, are commonly sold at prices that are substantially below those offered by L'anza's established distributorship network in the United States because that network pays more to purchase the products from L'anza.

17. Attached hereto as Exhibit "D" is a true and correct copy of L'anza's registered copyright, registration No. TXU593-178, effective January 7, 1994, covering numerous L'anza products, including the products purchased by Mr. Estrella from Vessey Drugs in Aptos and Vessey Drugs in Carmel.

I declare under penalty of perjury under the laws of the State of California and the laws of the United States of America that the foregoing is true and correct.

Executed this ____ day of March, 1995, at Azuza, California

ROBERT DE LANZA

[EXHIBITS A, B, C OMITTED IN PRINTING]

[PROOF OF SERVICE OMITTED IN PRINTING]

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L'ANZA [LOGO]
Research Laboratories
235 West Eight Street Azusa, CA 91702
Phone: (818) 334-9333
Order Desk 1-800-423-9850

[EXHIBIT K]

INVOICE

DATE	NUMBER
11/23/92	6927

SOLD TO
Planetary Eco Limited
Unit C, The Merlin Centre
Gatehouse Road
Aylesbury Bucks

SHIPPED TO 98003
L. Intertrade
Santosh
L'Alwett Street
Kappara

Customer Order No.	Salesperson	Our Order No.	Shipped Via	Weight	No. of Pcs.	Terms
	1	5846	clear freight			Net 30 days

Quantity Ordered	Shipped	B/O	Item Number	Description	Unit	Unit Price	Amount
500.00	500.00	0.00	1010	10oz. Lavenda Shampoo	dz	1.01	6,060.00
375.00	375.00	0.00	1210	10oz. Vitro Shampoo	dz	1.01	4,545.00
500.00	500.00	0.00	1410	10oz. Biotane Shampoo	dz	1.04	6,240.00
375.00	375.00	0.00	1610	10oz. Remede Shampoo	dz	1.43	6,435.00
125.00	125.00	0.00	1910	10oz. Rebalance Shampoo	dz	1.12	1,680.00
125.00	125.00	0.00	1418	18oz. Biotane Shampoo	dz	1.73	2,595.00
125.00	125.00	0.00	1618	18oz. Remede Shampoo	dz	2.48	3,720.00
125.00	125.00	0.00	1018	18oz. Lavenda Shampoo	dz	1.61	2,415.00
625.00	625.00	0.00	2010	10oz. Rebalance Leave-in	dz	1.43	10,725.00
500.00	500.00	0.00	2004	4oz. Rebalance Leave-in	dz	0.91	5,460.00

125.00	125.00	0.00	2018	16oz. Rebalance Leave-in	dz	2.24	3,360.00
500.00	500.00	0.00	1004	4oz. Moisture Factor	dz	1.24	7,440.00
125.00	125.00	0.00	3510	10oz. Multi Mist	dz	1.11	1,665.00
125.00	125.00	0.00	7106	6oz. Glazer Gel	dz	1.14	1,710.00
250.00	250.00	0.00	4710	10oz. Special Fx	dz	1.79	5,370.00
150.00	150.00	0.00	7710	10oz. Sprae Gel	dz	1.39	2,502.00
250.00	250.00	0.00	4510	10oz. Sprae Quatre	dz	1.33	3,990.00
50.00	50.00	0.00	7907	7oz. Rebalance Styling Foam	dz	1.34	804.00
6000.00	6000.00	0.00	A0003	Retail Bags	ea	0.05	300.00
20.00	20.00	0.00	A0009	Lanza Plexi Glass Sign	ea	6.47	129.40
50.00	50.00	0.00	L0004	Window Decals	ea	0.75	37.50
200.00	200.00	0.00	L0002	Salon Manual	ea	1.50	300.00
2.00	2.00	0.00	2001	1/4oz. Rebalance Sample	cs	0.07	70.60
2.00	2.00	0.00	1901	1/4oz. Rebalance Shampoo Sample	cs	0.10	100.00
2.00	2.00	0.00	1001	1/4oz. Lavenda Sample	cs	0.10	100.00
2.00	2.00	0.00	1401	1/4oz. Biotane Shampoo Sample	cs	0.07	70.00
2.00	2.00	0.00	1601	1/4oz. Remede Shampoo Sample	cs	0.10	100.00
1.00	1.00	0.00	7101	1/4oz. Glazer Gel Sample	cs	0.10	50.00
1.00	1.00	0.00	3001	1/4oz. Moisture Factor Sample	cs	0.10	50.00
8.00	8.00	0.00	C5051	Retail Center Extension Shelf 24"	ea	7.50	60.00

All Goods are of U.S. Origin.

Confirming Shipment of L'anza Products
of U.S. Origin.

Sub-total:	78,083.90
Sales Tax:	0.00
Misc Charge:	0.00
Freight:	0.00
TOTAL:	78,083.90

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[LOGO]
L'ANZA

Planetary Eco Limited
14A High Street
Wendover
AYLESBURY
Bucks, HP22 6EA
Tel: (0296) 398840
Fax: (0296) 399385

By Fax 20th November 1992

For the attention of Pasquale Russo

L'anza Research International Inc
Azusa
U.S.A.

Dear Pasquale,

RE: ORDER NO. 551 DATED 18.11.92 - DESTINATION MALTA

We have at last received a copy of the Letter of Credit and final confirmation should be received on Monday. However we don't anticipate any problems.

Attached is the final agreed order to be assembled for Malta.

The goods, as you know, are the subject of a Letter of Credit, and therefore the following documents are ESSENTIAL and must be ACCURATE and in accordance with the instruction of the Letter of Credit which apply to shipment:

1. Packing List in quadruplicate with :

   Item Numbers
   Description
   Container Numbers
   Bill of Lading Numbers

continued.....

Pasquale Russo continued.... 2

2. Full set of Clean On Board Ocean Bills of Lading comprising:

   Three original and,
   Four Copies evidencing shipment of the merchandise in containers via Ellerman Lines to Valetta, Malta.

3. Bills of Lading to be marked Freight Collect, Consigned to order and blank endorsed, with - :

   Notify Party: L. Intertrade,
   Santosh
   L'Alwett Street
   Kappara
   Malta

Confirming Shipment of L'anza Products of U.S. Origin

4. A FAX AT LEAST 60 HOURS PRIOR TO BILL OF LADING DATE TO BE SENT TO FAX NO. ENGLAND 071-629-0420, (Copy to 0296-399385) giving full pre-advice shipment details for insurance as follows:

   Quantity Shipped
   Container Numbers
   Vessel Name
   E.T.D. Port of Shipment
   E.T.A. Malta

5. In order for us to obtain a signed Certificate of Origin from our Chamber of Commerce we need from you a faxed Pro-Forma of your invoice to us listing the goods and giving total price.

   On that invoice it must be stated that "All goods are of U.S. ORIGIN."
   Please could this be sent to us immediately.

continued.....

Pasquale Russo continued.... 3

Pasquale, the latest shipment date is 7th December, earlier if at all possible provided all the above documents are prepared not forgetting the FAXED notification of shipment details for Insurance purposes at least 60 hours prior to shipment date.

I believe this is all quite straight forward and hope it will be clear to both you and Clearfreight.

We discussed this shipment with Robert and Robert while we were in Azusa and all decided to proceed, but as mentioned to you on the telephone please could you mark all product so that if it turns up in any other location it can be clearly identified and the relationship terminated.

We believe that this is the start of a good relationship between us and L. Intertrade and we understand that they hope to be placing orders like this three or four times a year.

Speak to you soon,

Best regards,

VALERIE

[EXHIBIT L]

L'ANZA [LOGO]
Research Laboratories
235 West Eight Street Azusa, CA 91702
Phone: (818) 334-9333
Order Desk 1-800-423-9850

INVOICE

DATE	NUMBER
5/19/93	8773

SOLD TO
Planetary Eco Limited
Unit C, The Merlin Centre
Gatehouse Road Aylesbury
England HP226EA

SHIPPED TO 98003
L. Intertrade
Santosh
L'Alwett Street
Kappara

Customer Order No.	Salesperson	Our Order No.	Shipped Via	Weight	No. of Pcs.	Terms
	1	7422	clear freight			Net 60 days

Quantity Ordered	Shipped	B/O	Item Number	Description	Unit	Unit Price	Amount
150.00	150.00	0.00	1910	10oz. Rebalance Shampoo	dz	1.12	2,016.00
20.00	20.00	0.00	1933	Liter Rebalance Shampoo	dz	3.23	775.20
250.00	250.00	0.00	2004	4oz. Rebalance Leave-in	dz	0.91	2,730.00
350.00	350.00	0.00	2010	10oz. Rebalance Leave-in	dz	1.43	6,006.00
150.00	150.00	0.00	2016	16oz. Rebalance Leave-in	dz	2.24	4,032.00
100.00	100.00	0.00	7907	1oz. Rebalance Styling Foam	dz	1.34	1,608.00
130.00	130.00	0.00	8010	10oz. Curls&Color Moist. Shampoo	dz	1.17	1,825.20
100.00	100.00	0.00	8204	4oz. Curls&Color Leave-in Protector	dz	0.91	1,092.00
415.00	415.00	0.00	8404	4oz. Curls&Color Moisture Treatment	dz	1.30	6,474.00
60.00	60.00	0.00	8304	4oz. Curls&Color Reconstructor	dz	1.96	1,411.20
75.00	75.00	0.00	8502	2oz. Curls&Color Rejuvinator	cs	0.59	1,062.00
100.00	100.00	0.00	8710	10oz. Curls&Color Purifying Shampoo	dz	1.43	1,716.00
100.00	100.00	0.00	7105	6oz. Glazer Gel	dz	1.14	1,368.00
80.00	80.00	0.00	7306	6oz. Sculpture Creme	dz	1.14	1,094.40
100.00	100.00	0.00	7510	10oz. Super Quatre	dz	1.33	1,596.00
130.00	130.00	0.00	7710	10oz. Sprae Gel	dz	1.39	2,168.40
60.00	60.00	0.00	4710	10oz. Special Fx	dz	1.79	1,288.80
80.00	80.00	0.00	7610	10oz. Dramatic Fx	dz	1.79	1,718.40
250.00	250.00	0.00	1010	10oz. Lavenda Shampoo	dz	1.01	3,030.00
125.00	125.00	0.00	1018	18oz. Lavenda Shampoo	dz	1.61	2,415.00
235.00	235.00	0.00	1210	10oz. Vitro Shampoo	dz	1.01	2,848.20
350.00	350.00	0.00	1410	10oz. Biotane Shampoo	dz	1.04	4,368.00
150.00	150.00	0.00	1418	18oz. Biotane Shampoo	dz	1.73	3,114.00
200.00	200.00	0.00	1610	10oz. Remede Shampoo	dz	1.43	3,432.00
150.00	150.00	0.00	1618	18oz. Remede Shampoo	dz	2.48	4,464.00
150.00	150.00	0.00	2404	4oz. Multi Bond	dz	2.17	3,906.00
100.00	100.00	0.00	3510	10oz. Multi Mist	dz	1.11	1,332.00
10.00	10.00	0.00	LRB01	Rebalance Product Brochure	pk	0.15	150.00
20.00	20.00	0.00	LCC01	C&C Product Brochure	pk	0.15	150.00
2.00	2.00	0.00	LCC2P	C&C Poster Pack (10 sets)	ea	25.00	50.00
4.00	4.00	0.00	800	Curls&Color Client Builder (100ct.)	cs	0.56	224.00
20.00	20.00	0.00	L0010	Presentation Folder	ea	1.50	30.00

All goods are of U.S. Origin.

Total Weight 38,844.40

Sub-total:	69,494.80
Sales Tax:	0.00
Misc Charge:	0.00
Freight:	0.00
Total:	69,494.80

European Distributor for
L'anza Research International
L'ANZA **Planetary Eco Limited**

Unit C. The Merlin Centre
Gatehouse Close
AYLESBURY
Bucks HP19 3DP
Tel: (0296) 398840
Fax: (0296) 399385

14A High Street
Wendover
AYLESBURY
Bucks HP22 6EA
Tel: (0296) 696030
Fax: (0296) 696020

Order No: 1270 - Destination Malta 14 May 1993

Product	Size	Quantity (Cases)
ReBalance Conditioning Shampoo	10 oz	150
ReBalance Conditioning Shampoo	Litre	20
ReBalance Leave-In Treatment	4 oz	250
ReBalance Leave-In Treatment	10 oz	350
ReBalance Leave-In Treatment	16 oz	150
ReBalance Styling Foam	7 oz	100
C&C Moisturising Shampoo	10 oz	130
C&C Leave-In Protector	4 oz	100
C&C Moisture Treatment	4 oz	415
C&C Reconstructor	4 oz	60
C&C Rejuventor - 24 per case	2 oz	75
C&C Purifying Shampoo	10 oz	100
Glazer Gel	6 oz	100
Sculpture Creme	6 oz	80
Super Quatre	10 oz	100
Sprae Gel	10 oz	130
Special FX	10 oz	60
Dramatic FX	10 oz	80
Lavenda Shampoo	10 oz	250
Lavenda Shampoo	18 oz	125
Vitro Shampoo	10 oz	235
Biotane Shampoo	10 oz	350
Biotane Shampoo	18 oz	150
Remede Shampoo	10 oz	200
Remede Shampoo	18 oz	150
Multi Bond	4 oz	150
Multi Mist	10 oz	100

Mr. P. Russo/Mr. B. Ambroso Page 2

PROMOTIONAL MATERIALS	Quantity (Units)
ReBalance Line Brochures	1000
Curls & Color Line Brochures	1000
Curls & Color Posters	20
Curls & Color Gift Boxes	400
L'anza Presentation Folders	20

2.** BILLS OF LADING

Full set of Clean On Board Ocean Bills of Lading comprising three original and four copies evidencing shipment of the merchandise in containers via Ellerman Lines to Valetta, Malta.

The Bills of Lading to be marked Freight Collect, Consigned to order and Blank Endorsed, with

Notifying Party: L. Intertrade
Santosh
L'Alwett Street
Kappara
Malta

Confirming Shipment of L'anza Products.

3. ADVICE FOR INSURANCE PURPOSES

A FAX AT LEAST 60 HOURS PRIOR TO BILL OF LADING DATE TO BE SENT TO FAX NO. ENGLAND 071-629-0420, (Copy to 0296-399385) giving full pre-advice shipment details for insurance as follows:

Quantity Shipped
Container Numbers
Vessel Name
E.T.D. Port of Shipment
E.T.A. Malta

4.** INVOICE
Your invoice to us listing the goods and giving total price.

On that invoice the following to be stated: All goods are of U.S. Origin. (Please fax a copy of this to us in advance of sending it) - We need this urgently to enable us to obtain a Certificate of Origin here.

** Original Items Numbers 2 and 4 to be overnighted by Fedex or U.P.S. (whatever) to us as before and faxed as soon as they are available.

IMPORTANT
No documents, other than Packing List Copy should be sent with the goods

Pasquale and Bob, at the moment the shipment date is 23rd May, and that is what we should be aiming for, provided all the above documents are prepared, not forgetting the FAXED notification of shipment details for insurance purposes at least 60 hours prior to shipment.

~~CHURCHILL TRUCK LINES, INC. - CHIL~~
~~CENTRAL OFFICE BOX 888, CHILLICOTHE, MISSOURI 64601~~

Agent's No. _____

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading.

From LAWEA Research Labs, Date 5-21-93

At 925 Street, W. Eighth St City, Azusa State, CA Zip, 91702 County

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as shown below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its route, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the terms and conditions of the Uniform Domestic Straight Bill of Lading set forth in the National Motor Freight Classification, which are hereby agreed to by the shipper and accepted for himself and his assigns.

Consigned TO L. Interstate Freight Collect

★ On Collect On Delivery Shipments, the letters "COD" must appear before consignee's name or as otherwise provided in Item 430, Sec. 1.

Destination Sawtooth & Atwell St. City,

Campbell State, Mallita Zip, _____ County

Routing _____

Delivering Carrier _____ Vehicle or Car Initials _____ No. _____

No. Packages	H.M.	DESCRIPTION OF ARTICLES, SPECIAL MARKS, AND EXCEPTIONS	*Weight (Subject to Cor.)	Class or Rate	Check Column
Well		Shampoos & Conditioner	24790	100	
		Subl, 5932			
		20 Pallets on 40ft Containers			
		Container # SCZU5533047		2	
		SEAL # 0330			
		INV. # 8778			

Subject to Section 7 of conditions, if this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:
The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges

_____ (Signature of Consignor)

If charges are to be prepaid write or stamp here "To be Prepaid."

Collect

Received $ _____ to apply in prepayment of the charges on the property described hereon.

_____ Agent or Cashier

Per _____ (The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$ _____

†The rate contained in this shipment conforms to the specifications set forth in the box maker's certificate thereon, and all other requirements of Rule 41 of the Uniform Freight Classification and Rule 5 of the National Motor Freight Classification."

‡Shipper's imprint in lieu of stamp, not a part of bill of lading approved by the Interstate Commerce Commission.

This is to certify that the above-named materials are properly classified, described, packaged, marked and labeled and are in proper condition for transportation according to the applicable regulations of the Department of Transportation.

per _____

*If the shipment moves between two ports by water, the law requires that the bill of lading shall state whether it is carrier's or shipper's weight.

NOTE — Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding $ _____ per _____

SHIPPER: LAWEA Research Labs	CARRIER FLS TRANSPORT
PER: Bob Hubbard	PER: [illegible]
DATE: 5-21-93	DATE: 5/21/93

O mark with an "X" to designate Hazardous Material as defined in Title 49 of the Code of Federal Regulations Governing Transportation of Hazardous Materials. Shown in this Column is an optional method of designating hazardous materials on bills of lading per section 172.201 and 172.202(b) of the regulations governing the transportation of such materials.

000020

ATTN: VALERIE

BEST AVAILABLE COPY

CHURCHILL TRUCK LINES, INC. - CTTL
GENERAL OFFICE, BOX 800, CHILLICOTHE, MISSOURI 64601

RECEIVED subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading.

From LANZA RESEARCH LABS, Date 5-21-83

At 925 W. Street Eighth St City AZUSA State CA Zip 91702 County

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as shown below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its route, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the terms and conditions of the Uniform Domestic Straight Bill of Lading set forth in the National Motor Freight Classification, which are hereby agreed to by the shipper and accepted for himself and his assigns.

Consigned TO CUTTER LABS Freight Collect

★ On Collect On Delivery Shipments, the letters "COD" must appear before consignee's name or as otherwise provided in Item 430, Sec. 1.

Destination EMERYVILLE Street 2800 Hollis City, Emeryville

County ALAMEDA State CA Zip

Routing

Delivering Carrier Vehicle or Car Initials No.

No. Packages	H.M.	DESCRIPTION OF ARTICLES, SPECIAL MARKS, AND EXCEPTIONS	*Weight (Subject to Cor.)	Class or Rate	Check Column
1		Shampoo & Conditioner	13282	LQ	
		Subj. to 93320			
		10 SKIDS ON HOFT Container			
		FREIGHT Collect			
		Container #'s SZCU5538640			
		SEAL #'s 0339			

Subject to Section 7 of conditions, if this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement:
The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges.

(Signature of Consignor)

If charges are to be prepaid write or stamp here "To be Prepaid."

Collect

Received $ to apply in prepayment of the charges on the property described hereon.

Agent or Cashier

Per (The signature here acknowledges only the amount prepaid.)

Charges Advanced:

$

†"The fibre containers used for this shipment conform to the specifications set forth in the box maker's certificate thereon, and all other requirements of Rule 41 of the Uniform Freight Classification and Rule 5 of the National Motor Freight Classification."
‡Shipper's imprint in lieu of stamp, not a part of bill of lading approved by the Interstate Commerce Commission.

This is to certify that the above-named materials are properly classified, described, packaged, marked and labeled and are in proper condition for transportation according to the applicable regulations of the Department of Transportation.

per

*If the shipment moves between two ports by water, the law requires that the bill of lading shall state whether it is carrier's or shipper's weight.
NOTE — Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding $ per

SHIPPER: LANZA RESEARCH LABS	CARRIER T-L-S Transp.
PER: 200 Harbor Dr	PER: Juan Rocha
DATE:	DATE: 5-21-83

O Mark with an "X" to designate hazardous material as defined in Title 49 of the code of Federal Regulations Governing Transportation of Hazardous Materials. The use of this Column is an optional method of designating hazardous materials on bills of lading per section 177.301 and 177.302(d) of the regulations governing the transportation of such materials.

T2U000 000021

L'ANZA [LOGO]
Research Laboratories
235 West Eight Street Azusa, CA 91702
Phone: (818) 334-9333
Order Desk 1-800-423-9850

[EXHIBIT M]

INVOICE

DATE	NUMBER
12/07/93	11661

SOLD TO
L. Intertrade Limited
Santosh
L'Alwett Street
Kappara Malta

SHIPPED TO 99003
L. Intertrade Limited
Felixstone
U.K. Port

Customer Order No.	Salesperson	Our Order No.	Shipped Via	Weight	No. of Pcs.	Terms
	1	9236	Hapag Lloyd			cash on deliver

Quantity Ordered	Shipped	B/O	Item Number	Description	Unit	Unit Price	Amount
250.00	250.00	0.00	10010	10oz. Lavenda Shampoo	dz	1.75	5,250.00
200.00	200.00	0.00	ZZ1210	10oz. Vitro Shampoo	dz	1.75	4,200.00
300.00	300.00	0.00	50010	10oz. Biotane Shampoo	dz	1.77	6,372.00
200.00	200.00	0.00	13008	10oz. Remede Shampoo	dz	2.46	5,904.00
200.00	200.00	0.00	12010	10oz. Reb. Shampoo Plus	dz	1.89	4,536.00
225.00	225.00	0.00	ZZ1418	18oz. Biotane Shampoo	dz	3.02	8,154.00
10.00	10.00	0.00	12033	Liter Reb. Shampoo Plus	dz	5.43	651.60
470.00	470.00	0.00	20010	10oz. Reb. Leave-in Conditioner	dz	2.40	13,536.00
250.00	250.00	0.00	20004	4oz. Reb. Leave-in Conditioner	dz	1.53	4,590.00
290.00	290.00	0.00	20016	16oz. Reb. Leave-in Conditioner	dz	3.77	13,119.60

-82-

100.00	100.00	0.00	ZZ3510	10oz. Multi Mist	dz	1.95	2,340.00
80.00	80.00	0.00	ZZ7306	6oz. Sculpture Creme	dz	1.96	1,881.60
100.00	100.00	0.00	ZZ7106	6oz. Glazer Gel	dz	1.96	2,352.00
150.00	150.00	0.00	77010	10oz. Sprae Gel	dz	2.35	4,230.00
100.00	100.00	0.00	ZZ7510	10oz. Super Quatre	dz	2.27	2,724.00
100.00	100.00	0.00	34007	8oz. Rebalance Styling Foam	dz	2.25	2,700.00
150.00	150.00	0.00	52010	10oz. C&C Moisturizing Shampoo	dz	1.95	3,510.00
300.00	300.00	0.00		4oz. C&C Leave-in Protector	dz	2.18	7,848.00
100.00	100.00	0.00	54010	10oz. C&C Purifying shampoo	dz	2.60	3,120.00
10.00	10.00	0.00	LRB001	Rebalance Product Brochure	pk	0.15	150.00
20.00	20.00	0.00	LCC001	C&C Product Brochure	pk	0.22	220.00
20.00	20.00	0.00	LCC002	C&C Poster Set (2)	ea	1.85	37.00
4.00	4.00	0.00	6300	Curls & Color Gift Box	cs	0.83	332.00
20.00	20.00	0.00	L00100	Presentation Folder	ea	0.74	14.80

-83-

Total Weight: 40,281.20

Sub-total:	97,772.60
Sales Tax:	0.00
Misc Charge:	-1000.00
Freight:	-1000.00
Total:	96,772.60

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JOHN K. McKASSON
Bar No. 138194
LaTORRACA AND GOETTSCH
A LAW PARTNERSHIP
211 EAST OCEAN BOULEVARD, SUITE 400
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LONG BEACH, CALIFORNIA 90801-4978
(310) 436-1887

Attorneys for Plaintiff
L'anza Research International, Inc.,
a California corporation

RECEIVED
MAR 27, 1995
Chambers of
Judge J. Spencer Letts

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

[PROPOSED] STATEMENT OF UNCONTROVERTED FACTS AND CONCLUSIONS OF LAW

DATE: April 17, 1995
TIME: 8:00 a.m.
PLACE: Courtroom "4" of the
Honorable J. Spencer Letts,
United States District Judge

PRETRIAL CONFERENCE DATE:
APRIL 6, 1995
TIME: 8:00 a.m.

The above-entitled cause came on regularly for hearing on motion by plaintiff L'anza Research International, Inc. ("L'anza"), a California corporation, for an order specifying issues that exist without substantial controversy at 8:00 a.m. on April 6, 1995.

The court, having examined the file, having heard arguments of counsel and being fully apprised of the matter, makes the following statement of uncontroverted facts:

STATEMENT OF UNCONTROVERTED FACTS

1. L'anza Research International, Inc. ("L'anza"), a California corporation, is a corporation organized and existing under the laws of the State of California with its principal place of business in Azusa, California.

(Answer of Quality King Distributors, Inc. ("Quality King"), ¶3.)

2. This action arises under the Copyright Act of 1976, 17 U.S.C. §101 *et seq*., and this court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and 1338.

(Answer of Quality King, ¶1.)

3. Venue is proper in this judicial district pursuant to 28 U.S.C. §1400.

(Answer of Quality King, ¶2.)

4. L'anza owns all right, title and interest to the United States copyright, registration No. TXU593-178, effective January 7, 1994.

(Exhibit "D" to declaration of Robert De Lanza (De Lanza declaration.)

5. L'anza sold certain L'anza hair care products containing the copyrighted material ("the copyrighted material") to its distributor in the United Kingdom which

in turn sold those goods to a company called L. Intertrade in Malta.

(De Lanza declaration, ¶9.)

6. The L'anza hair care products containing the copyrighted material were imported into the United States without L'anza's permission.

(De Lanza declaration, ¶¶5-8.)

7. Defendant Rancho Del Mar Pharmacy dba Vassey Drugs ("Vassey Drugs") sold certain L'anza hair care products containing the copyrighted material that had been imported into the United States from Malta without L'anza's permission.

(See both declarations of Derrol Estrella which are attached as Exhibit "1" to the declaration of John K. McKasson ("McKasson declaration") and ¶¶4-8 and Exhibits "A," "B," and "C" to the De Lanza declaration.)

8. Vassey Drugs purchased the L'anza hair care products from defendant Quality King.

(Declaration of Donald Graves ("Graves declaration"), ¶¶2 through 4.)

9. L'anza had not previously made a first sale of the imported products in the United States.

(De Lanza declaration, ¶¶9, 10, 11 and 12.)

10. As to the shipments by L'anza dated November 23, 1992, May 19, 1993 and December 17, 1993 of L'anza products to be sold to its United Kingdom distributor and then to be resold to L. Intertrade, the parties to these transactions contemplated that possession, custody, control and title to the products being sold would not pass until the products arrived at their destination which was not in the United States.

(De Lanza declaration, ¶¶9 and 12.)

11. L'anza did not receive any payment for the November 23, 1992, May 19, 1993 or December 17,

1993 shipments of L'anza hair care products while those products were in the United States.

(*Id.*)

12. The November 23, 1992 and May 19, 1993 shipments of L'anza hair care products were done via letter of credit.

(*Id.*)

13. The December 17, 1993 shipment of L'anza hair care products was done "cash on delivery."

(*Id.*)

14. L'anza Research International, Inc. is an S corporation with the sole shareholders being Robert and Krystyna De Lanza.

(De Lanza declaration, ¶2.)

15. At the times of the above three shipments of L'anza hair care products to the United Kingdom distributor on November 23, 1992, May 19, 1993 and December 17, 1993, Mr. and Mrs. De Lanza were partners in the United Kingdom distributor with a substantial interest therein.

(De Lanza declaration, ¶11.)

16. At the present time, Mr. and Mrs. De Lanza own 40% of the stock in the United Kingdom distributor.

(*Id.*)

17. The L'anza hair care products reflected in the November 23, 1992, May 19, 1993 and December 17, 1993 invoices were sold by L'anza in the United Kingdom at a 35% to 40% discount below the prices at which the L'anza sells the same products to its United States distributors ("U.S. distributors"), because L'anza incurs advertising expenses related to goods sold in the United States and has already established reliable channels of distribution in the United States.

(De Lanza declaration, ¶¶13 and 14 and generally the declaration of Trevor Wayne Attenborough which is attached as Exhibit "2" to the McKasson declaration.)

CONCLUSIONS OF LAW

Based on the above-stated uncontroverted facts, the court makes the following conclusions of law:

1. This court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and 1338.

2. Venue is proper in this judicial district pursuant to 28 U.S.C. §1400.

3. L'anza owns all right, title and interest in United States copyright registration No. TXU593-178, effective January 7, 1994 ("L'anza's copyright").

4. Quality King infringed L'anza's copyright in violation of 17 U.S.C. §6020(a) of the Copyright Act.

5. The first sale defense in 17 U.S.C. §109(a) of the Copyright Act does not bar liability as to Quality King in this case.

6. Any stated uncontroverted fact deemed a conclusion of law is hereby incorporated as such.

DATED: _____, 1995.

_____
UNITED STATES DISTRICT JUDGE

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J. Larson Jaenicke [State Bar No. 73876]
Melodie K. Larsen [State Bar No. 110819]
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(310) 203-0935

Attorneys for Defendant
Quality King Distributors, Inc.

FILED
APR 3, 1995
Clerk, U.S. District Court
Central Dist. of Calif.
Los Angeles
By _____

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

QUALITY KING DISTRIBUTORS, INC.'S STATEMENT OF DISPUTED FACTS IN OPPOSITION TO PLAINTIFF'S MOTION FOR AN ORDER SPECIFYING ISSUES WITHOUT SUBSTANTIAL CONTROVERSY

DATE: April 17, 1995
TIME: 1:00 p.m.
PLACE: Courtroom "4"

STATEMENT OF UNCONTROVERTED FACTS

1. L'anza Research International, Inc. ("L'anza"), a California corporation, is a corporation organized and existing under the laws of the State of California with its principal place of business in Azusa, California.

Undisputed.

2. This action arises under the Copyright Act of 1976, 17 U.S.C. §101 *et seq.*, and this court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and 1338.

Undisputed.

3. Venue is proper in this judicial district pursuant to 28 U.S.C. §1400.

Undisputed.

4. L'anza owns all right, title and interest to the United States copyright, registration No. TXU593-178, effective January 7, 1994.

Disputed. The registration does not include all of the products which are the subject of L'anza's claim. [*Compare* Amended Declaration of Robert DeLanza ("DeLanza Decl."), Exhs. K-M. Declaration of Melodie K. Larsen ("Larsen Decl."), Exh. A.]

5. L'anza sold certain L'anza hair care products containing the copyrighted material ("the copyrighted material") to its distributor in the United Kingdom which in turn sold those goods to a company called L. Intertrade in Malta.

Disputed. L'anza has not produced admissible evidence showing that all of the alleged "copyrighted material" was the subject of copyright protection pursuant to the registration attached as Exh. D to the

DeLanza Decl. or that its United Kingdom distributor sold products to L. Intertrade.

6. The L'anza hair care products containing the copyrighted material were imported into the United States without L'anza's permission.

Disputed. L'anza has not produced admissible evidence showing (1) that any materials were imported into the United States without its permission; (2) showing the terms of any agreement between L'anza and its United Kingdom distributor or between L'anza's United Kingdom distributor and L. Intertrade; (3) that any L'anza hair care products were reimported into the United States; or (4) that the products purported reimported into the United States were covered by L'anza's copyright registration. [DeLanza Decl., ¶8; Exhs. D, K-M. *See also* FRCP 56(e) which requires that documents referred to in declarations in support of motions for adjudication of issues be attached to the declarations; Rules 902 and 1002 of the Federal Rules of Evidence.]

7. Defendant Rancho Del Mar Pharmacy dba Vassey Drugs ("Vassey Drugs") sold certain L'anza hair care products containing the copyrighted material that had been imported into the United States from Malta without L'anza's permission.

Disputed. L'anza has produced no admissible evidence that the hair care products which Vassey Drugs purchased had been imported into the United States without L'anza's permission. [DeLanza Decl., ¶8; FRCP 56(e).] L'anza has not shown that all of the documents which were purchased by Vassey Drugs were covered by L'anza's copyright registration. [*Compare* DeLanza Decl., Exh. D; Larsen Decl., Exh. A.]

8. Vassey Drugs purchased the L'anza hair care products from defendant Quality King.

Undisputed for purchases of this motion only as to the products identified in Derroll Estrella's Declarations.

9. L'anza had not previously made a first sale of the imported products in the United States.

Disputed. [DeLanza Decl., ¶12; Exhs. K-M]. L'anza may not rely upon inadmissible testimony and conclusory declarations in violation of FRCP 56(e).

10. As to the shipments by L'anza dated November 23, 1992, May 19, 1993 and December 17, 1993 of L'anza products to be sold to its United Kingdom distributor and then to be resold to L. Intertrade, the parties to these transactions contemplated that possession, custody, control and title to the products being sold would not pass until the products arrived at their destination which was not in the United States.

Disputed. [DeLanza Decl. ¶12, Exhs. K-M]. In addition, L'anza may not rely upon conclusory and inadmissible evidence in violation of FRCP 56(e) and is required by this subsection to produce documents reflecting any alleged agreement between L'anza and its distributor on this subject.

11. L'anza did not receive any payment for the November 23, 1992, May 19, 1993 or December 17, 1993 shipments of L'anza hair care products while those products were in the United States.

Disputed. L'anza has offered no admissible evidence in support of this purported fact and has not produced checks, statements, letters of credit, bookkeeping documents, or other documents which would show when payment was received. L'anza may not rely upon sweeping and conclusory statements (which do not even state when payment was in fact allegedly received) to suppo. its motion under FRCP 56(e). Quality King also objects to this purported undisputed fact on the ground that it is irrelevant to the issues before the Court.

12. The November 23, 1992 and May 19, 1993 shipments of L'anza hair care products were done via letter of credit.

Disputed. L'anza has produced no admissible evidence establishing that the shipments were done via letter of credit nor has it produced the letters of credit. [DeLanza Decl., ¶9.] FRCP 56(e) requires that documents referred to in declarations in support of motions for adjudication of issues be attached to the declaration.

13. The December 17, 1993 shipment of L'anza hair care products was done "cash on delivery."

Disputed. L'anza has produced no admissible evidence establishing that the shipment was done "cash on delivery." [DeLanza Decl. ¶9.] FRCP 56(e) requires that documents referred to in declarations in support of motions for summary adjudication of issues be attached to the declarations.

14. L'anza Research International, Inc. is an S corporation with the sole shareholders being Robert and Krystyna DeLanza.

Undisputed for purposes of this motion only.

15. At the times of the above three shipments of L'anza hair care products to the United Kingdom distributor on November 23, 1992, May 19, 1993 and December 17, 1993, Mr. and Mrs. DeLanza were partners in the United Kingdom distributor with a substantial interest therein.

Undisputed for purposes of this motion only.

16. At the present time, Mr. and Mrs. DeLanza own 40% of the stock in the United Kingdom distributor.

Undisputed for purposes of this motion only.

17. The L'anza hair care products reflected in the November 23, 1992, May 19, 1993 and December 17, 1993 invoices were sold by L'anza in the United

Kingdom at a 35% to 40% discount below the prices at which L'anza sells the same products to its United States distributors ("U.S. distributors"), because L'anza incurs advertising expenses related to goods sold in the United States and has already established reliable channels of distribution in the United States.

Disputed. L'anza has not offered admissible evidence in support of the above facts and relies upon conclusory declarations unsupported by the necessary documentary evidence as required by of FRCP 56(e).

QUALITY KING'S UNDISPUTED FACTS

18. Title to the goods shipped by L'anza to its United Kingdom distributor transferred when the goods were delivered to the carrier in the United States and "clean on board ocean bills of lading" issued.

DeLanza Decl., ¶12, Exhs. K-M.

19. When L'anza shipped goods to L. Intertrade, it knew that the goods were to be sold in Malta and possibly Libya.

DeLanza Decl., ¶10; Exhs. K-M.

20. The following product labels are not included in the copyright registration filed by L'anza: Rebalance Shampoo; Moisture Factor; Glazer Gel; Special FX; Sprae Gel; Curls & Color Leave In Protector; Curls & Color Reconstructor; Curls & Color Curl Rejuvenator; Curls & Color Purifying Shampoo; Sculpture Creme; Dramatic FX and Multi-Bond.

DeLanza Decl., Exh. D; Larsen Decl., Exh. A.

CONCLUSIONS OF LAW

1. This court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§1331 and 1338.

Undisputed.

2. Venue is proper in this judicial district pursuant to 28 U.S.C. §1400.

Undisputed.

3. L'anza owns all right, title and interest in United States copyright registration No. TXU593-178, effective January 7, 1994 ("L'anza's copyright").

Disputed.

4. Quality King infringed L'anza's copyright in violation of 17 U.S.C. §602(a) of the Copyright Act.

Disputed.

5. The first sale defense in 17 U.S.C. §109(a) of the Copyright Act does not bar liability as to Quality King in this case.

Disputed.

6. Any stated uncontroverted fact deemed a conclusion of law is hereby incorporated as such.

QUALITY KING'S CONCLUSIONS OF LAW

7. Quality King did not violate 17 U.S.C. §602(a).

8. The first sale defense in 17 U.S.C. §109(a) bars L'anza's claim.

9. L'anza violated Executive Order 12543 and is barred by the doctrine of unclean hands from asserting a copyright claim against Quality King.

10. L'anza's copyright registration does not cover Rebalance Shampoo; Moisture Factor; Glazer Gel; Special FX; Sprae Gel; Curls & Color Leave In

Protector; Curls & Color Reconstructor; Curls & Color Curl Rejuvenator; Curls & Color Purifying Shampoo; Sculpture Creme; Dramatic FX and Multi-Bond.

Dated: April 3, 1995

RINTALA, SMOOT, JAENICKE
& BRUNSWICK
J. Larson Jaenicke
Melodie K. Larsen

By /s/ Melodie K. Larsen
Melodie K. Larsen
Attorneys for Defendant
Quality King Distributors, Inc.

[PROOF OF SERVICE OMITTED IN PRINTING]

J. Larson Jaenicke [State Bar No. 73876]
Melodie K. Larsen [State Bar No. 110819]
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Attorneys for Defendant
Quality King Distributors, Inc.

FILED
APR 3, 1995
Clerk, U.S. District Court
Central Dist. of Calif.
Los Angeles
By _____

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

QUALITY KING DISTRIBUTORS, INC.'S OBJECTIONS TO DECLARATIONS FILED IN SUPPORT OF L'ANZA RESEARCH INTERNATIONAL, INC.'S MOTION FOR ORDER SPECIFYING ISSUES WITHOUT SUBSTANTIAL CONTROVERSY

DATE: April 17, 1995
TIME: 1:00 p.m.
PLACE: Courtroom "4"

Defendant Quality King Distributors, Inc. objects to the following declarations submitted in support of

L'anza's Motion for Summary Adjudication of Issues on the following grounds:

I.

AMENDED DECLARATION AND DECLARATION OF ROBERT LANZA

1. Paragraph 3 - Lack of foundation, best evidence rule, and hearsay, conclusory.

2. Paragraph 5 - Lack of foundation, hearsay.

3. Paragraph 6 - Lack of foundation, hearsay.

4. Paragraph 8 - Lack of foundation, best evidence rule, improper opinion testimony, hearsay, conclusory.

5. Paragraph 9 - Lack of foundation, best evidence rule, improper opinion testimony, hearsay, conclusory.

6. Paragraph 10 - Lack of foundation, best evidence rule, improper opinion testimony, legal conclusion.

7. Paragraph 11 - Lack of foundation, improper opinion testimony, legal conclusion.

8. Paragraph 12 - Lack of foundation, speculation, improper opinion testimony, legal conclusion, best evidence rule, conclusory.

9. Paragraph 13 - Lack of foundation, best evidence rule, improper opinion testimony, legal conclusion.

10. Paragraph 12 - Lack of foundation, speculation, improper opinion testimony, legal conclusion, best evidence rule, conclusory.

11. Paragraph 13 - Lack of foundation, best evidence rule, improper opinion testimony, legal conclusion, conclusory.

12. Paragraph 14 - Lack of foundation, best evidence rule.

13. Parargraph 15 - Lack of foundation, best evidence rule, conclusory.

14. Paragraph 16 - Lack of foundation, conclusory.

15. Paragraph 17 - Lack of foundation, hearsay.

II.

DECLARATION OF ROBERT HALL

1. Paragraph 3 - Lack of foundation, conclusory.

2. Paragraph 4 - Lack of foundation, best evidence rule, conclusory.

3. Paragraph 6 - Lack of foundation, best evidence rule.

4. Paragraph 7 - Lack of foundation; best evidence rule, conclusory.

5. Paragraph 8 - Lack of foundation; best evidence rule, conclusory.

6. Paragraph 9 - Lack of foundation; best evidence rule, conclusory.

7. Paragraph 10 - Conclusory, lack of foundation.

8. Paragraph 11 - Conclusory, lack of foundation.

9. Paragraph 12 - Lack of foundation, hearsay, conclusory.

10. Paragraph 13 - Lack of foundation, conclusory.

11. Paragraph 15 - Lack of foundation, best evidence rule, conclusory.

12. Paragraph 16 - Lack of foundation, improper opinion testimony, legal conclusion, best evidence rule.

DECLARATION OF DONALD H. GRAVES

13. Paragraph 2 - Vague, ambiguous, conclusory, lack of foundation.

14. Paragraph 3 - Vague, ambiguous, conclusory, lack of foundation.

DECLARATION OF TREVOR WAYNE ATTENBOROUGH

15. Paragraph 3 - Lack of foundation, improper legal conclusion.

Dated: April 3, 1995

RINTALA, SMOOT, JAENICKE & BRUNSWICK
J. Larson Jaenicke
Melodie K. Larsen

By /s/ Melodie K. Larsen
Melodie K. Larsen
Attorneys for Defendant
Quality King Distributors, Inc.

[PROOF OF SERVICE OMITTED IN PRINTING]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

FILED
MAY 1, 1995
Clerk, U.S. District Court
Central District of California
By Deputy

THIS CONSTITUTES NOTICE OF ENTRY
AS REQUIRED BY FRCP, RULE 77(d).

L'ANZA RESEARCH INTERNATIONAL,
Plaintiff,
v.
QUALITY KING, ET AL.,
Defendants.

CV 94-0841 JSL

ORDER SPECIFYING ISSUES

The motion of plaintiff L'Anza Research International, Inc. (hereinfter "L'Anza") for an order specifying issues that exist without substantial controversy as to defendant Quality King Distributors, Inc., came on for hearing regularly on April 17, 1995.

Having reviewed the papers filed in connection with this matter, having heard oral argument, and being fully apprised of the relevant facts and law,

IT IS HEREBY ORDERED that the motion of plaintiff L'Anza Research International, Inc. be GRANTED. The Court reaches the following conclusions of law in this case:

(1) L'Anza owns all right, title, and interest in the United States copyright registration No. TXU593-178, effective January 7, 1994; and

(2) The first sale defense in 17 U.S.C. § 109(a) of the Copyright Act does not bar liability as to Quality King, if otherwise proven, in this case.

IT IS SO ORDERED. A written opinion providing a more specific statement of the grounds for this decision will follow.

DATE: 5/1/95

/s/ J. Spencer Letts
J. Spencer Letts
United States District Judge

JOHN K. McKASSON
Bar No. 138194
LaTORRACA AND GOETTSCH
A LAW PARTNERSHIP
211 EAST OCEAN BOULEVARD, SUITE 400
POST OFFICE BOX 21978
LONG BEACH, CALIFORNIA 90801-4978
(310) 436-1887

Attorneys for Plaintiff
L'anza Research International, Inc.,
a California corporation

FILED
MAY 9, 1995
Clerk, U.S. District Court
Central District of California

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

DECLARATION OF DAVID RIPPON IN SUPPORT OF THE REPLY BY PLAINTIFF L'ANZA RESEARCH INTERNATIONAL, INC. TO THE OPPOSITION OF DEFENDANT QUALITY KING DISTRIBUTORS, INC. TO L'ANZA'S MOTION FOR AN ORDER SPECIFYING ISSUES THAT EXIST WITHOUT SUBSTANTIAL CONTROVERSY

DATE: April 17, 1995
TIME: 1:00 p.m.
PLACE: Courtroom "4" of the
Honorable J. Spencer Letts,
United States District Judge

Plaintiff L'anza Research International, Inc. ("L'anza"), a California corporation, respectfully submits the within declaration of David Rippon in support of its reply to the opposition of defendant Quality King Distributors, Inc. ("Quality King") to L'anza's motion for an order specifying issues that exist without substantial controversy.

DECLARATION OF DAVID RIPPON

I, DAVID RIPPON, declare that:

1. I am a citizen of the United Kingdom and am the Chairman of L'anza Europe Limited which is the distribution of the products of L'anza Research International, Inc. ("the L'anza distributorship") in the United Kingdom. I was previously the managing director of Planetary ECO Limited, the prior L'anza distributorship in the United Kingdom.

2. With regard to shipments of L'anza hair care products by L'anza to Planetary ECO Limited and later to L'anza Europe Limited, it was always my understanding as the managing director of Planetary ECO Limited and the part owner and Chairman of L'anza Europe Limited that possession, custody, control and title to any goods shipped by L'anza would not pass until the goods arrived in the United Kingdom or some other foreign destination. It was further always my understanding and the understanding of L'anza Europe Limited and Planetary ECO Limited that sales by either company had to be

restricted to their territories which definitely excluded any sales in the United States.

I declare under penalty of perjury under the laws of the United Kingdom and of the United States of America that the foregoing is true and correct.

Executed this 2nd day of May, 1995, at United Kingdom.

/s/ DAVID RIPPON
DAVID RIPPON

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JOHN K. McKASSON
Bar No. 138194
LaTORRACA AND GOETTSCH
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LONG BEACH, CALIFORNIA 90801-4978
(310) 436-1887

Attorneys for Plaintiff
L'anza Research International, Inc.,
a California corporation

FILED
JUL 25, 1995
Clerk, U.S. District Court
Central District of California
By Deputy

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

ORDER FOR PERMANENT INJUNCTION AGAINST DEFENDANT QUALITY KING DISTRIBUTORS, INC.

TRIAL DATE: Past

On July 24, 1995 at 1:00 p.m. in this Courtroom of the United States District Court for the Central District of California located at 312 N. Spring Street, Los Angeles, California, the motion of plaintiff L'anza Research International, Inc. ("L'anza") for a permanent

injunction against defendant Quality King Distributors, Inc. ("Quality King") came on regularly for hearing.

NOW THEREFORE, good cause appearing therefore,

IT IS HEREBY ORDERED that:

Quality King and its officers, agents, servants, employees, attorneys, and all those acting in active concert or participation with it are prohibited from:

(1) importing any of the following L'anza hair care products to the extent that they were originally sold by L'anza to parties outside of the United States: Super Quatre, Mutli-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisture Treatment, Curls & Color Moisturizing Shampoo, Re-Balance Leave In Conditioner, Re-Balance Shampoo Plus, and Re-Balance Styling Foam; and

(2) selling any of the following L'anza hair care products to the extent that they have been imported into the United States after having been originally sold by L'anza to some party outside of the United States: Super Quatre, Multi Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisture Treatment, Curls & Color Moisturizing Shampoo, Re-Balance Leave In Conditioner, Re-Balance Shampoo Plus, and Re-Balance Styling Foam.

IT IS FURTHER ORDERED that:

Quality King may send to L'anza any L'anza product in its original carton that it intends to buy, sell or dispose of and L'anza shall inform Quality King within ten days of receipt as to whether the particular L'anza product had previously been sold by L'anza within the United States. Thereafter, if L'anza has informed Quality King that a particular L'anza product was previously sold by L'anza within the United States, Quality King shall not be in violation of this injunction by buying,

selling or disposing of the product so identified by L'anza. After inspecting the products sent to it by Quality King, L'anza shall be required to return those products to Quality King within ten days.

DATE: July 25, 1995

/s/ J. Spencer Letts
J. Spencer Letts
United States District Judge

Respectfully submitted by:

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FILED
SEP 28, 1995
Clerk, U.S. District Court
Central District of California

THIS CONSTITUTES NOTICE OF ENTRY
AS REQUIRED BY FRCP, RULE 77(a).

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

[TITLE OMITTED IN PRINTING]

CASE NO. CV-94 0841 JSL

JUDGMENT

IT IS HEREBY ORDERED AND ADJUDGED that plaintiff L'anza Research International, Inc. ("L'anza") shall recover of defendant Quality King International, Inc. ("Quality King") the sum of $132,616.00, with interest thereon at the rate of as provided by law, and its costs of _____.

IT IS FURTHER ORDERED AND DECREED that Quality King and its officers, agents, servants, employees, attorneys, and all those acting in active concert or participation with it are prohibited from:

(1) importing any of the following L'anza hair care products to the extent that they were originally sold by

L'anza to parties outside of the United States: Super Quatre, Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisture Treatment, Curls & Color Moisturizing Shampoo, Re-Balance Leave In Conditioner, Re-Balance Shampoo Plus, and Re-Balance Styling Foam; and

(2) selling any of the following L'anza hair care products to the extent that they have been imported into the United States after having been originally sold by L'anza to some party outside of the United States: Super Quatre, Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisture Treatment, Curls & Color Moisturizing Shampoo, Re-Balance Leave In Conditioner, Re-Balance Shampoo Plus, and Re-Balance Styling Foam.

IT IS FURTHER ORDERED that Quality King may send to L'anza any L'anza product in its original carton that it intends to buy, sell or dispose of and L'anza shall inform Quality King within ten days of receipt as to whether the particular L'anza product had previously been sold by L'anza within the United States. Thereafter, if L'anza has informed Quality King that a particular L'anza product was previously sold by L'anza within the United States, Quality King shall not be in violation of this injunction by buying, selling or disposing of the product so identified by L'anza. After inspecting the products sent to it by Quality King, L'anza shall be required to return those products to Quality King within ten days.

DATED: Sept. 28, 1995

J. Spencer Letts
J. Spencer Letts, Judge
United States District Court

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Supreme Court, U.S.
FILED
AUG 6 1997
CLERK

No. 96-1470

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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BRIEF FOR PETITIONER

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QUESTION PRESENTED

May a U.S. copyright holder, which manufactures and first sells to a foreign purchaser a consumer product with a copyrighted label, sue a subsequent purchaser of the same copy of the product for infringement of its distribution rights under Section 602(a) of the Copyright Act, or does the first sale doctrine contained in Section 109(a) bar the lawsuit?

PARTIES TO THE PROCEEDINGS

All parties in this Court appear in the caption of the case. Petitioner Quality King Distributors, Inc. has no parent companies or non-wholly owned subsidiaries that have issued shares to the public.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

No. 96-1470

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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BRIEF FOR PETITIONER

OPINIONS BELOW

The opinion of the Court of Appeals is reported at 98 F.3d 1109 and is reproduced in the appendix to the petition ("Pet. App.") at page A1. The opinion of the District Court is unreported and is reproduced at Pet. App. B1.

JURISDICTION

The judgment of the Court of Appeals was entered on October 22, 1996. Petitioner's timely petition for rehearing and suggestion for rehearing *en banc* were denied on December 16, 1996. The petition for a writ of certiorari was filed on March 17, 1997 and was granted on June 2, 1997. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1).

PERTINENT STATUTES

Section 106 of the Copyright Act of 1976, 17 U.S.C. § 106, provides in pertinent part:

> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> * * *
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending; * * * .

Section 109(a) of the Copyright Act of 1976, 17 U.S.C. § 109(a), provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Section 602(a) of the Copyright Act of 1976, 17 U.S.C. § 602(a), provides in pertinent part:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

STATEMENT OF THE CASE

In this case, respondent L'anza Research International, Inc. ("L'anza") seeks to use the Nation's copyright laws to block the sale by petitioner Quality King Distributors, Inc. ("Quality King") of an imported consumer product bearing a copyrighted label, notwithstanding that the product was lawfully made and first introduced into the stream of commerce by L'anza itself. The goal of L'anza's action is to assist it in imposing on unrelated distributors a discriminatory pricing regime through which L'anza seeks to maintain a higher resale price for its goods in the United States than in foreign countries.

As explained below, the plain language of the Copyright Act does not permit L'anza to use the statute to further this commercial strategy. L'anza contends, and the Ninth Circuit agreed, that Quality King violated Section 602(a) of the Copyright Act of 1976, 17 U.S.C. § 602(a), which provides that importation of a copyrighted work acquired abroad is an infringement of the copyright owner's distribution rights under Section 106 of the Act. However, under the so-called "first sale" doctrine, codified in Section 109(a) of that Act, 17 U.S.C. § 109(a), once a copyright owner has sold a copyrighted work, the owner cannot sue a subsequent third-party reseller such as Quality King for infringement of the owner's exclusive distribution rights—regardless of whether the alleged violation occurs through normal distribution or, as here, through importation as provided in Section 602(a).

Accordingly, if L'anza wishes to enforce a discriminatory resale pricing strategy, it can seek to do so through lawful contractual means. But L'anza may not employ the Copyright Act to achieve its trade objectives. That statute was intended to provide authors with limited rights to control the reproduction and first distribution of their intellectual works. Its plain language does not permit L'anza to use its nominal copyright on the labels of its products as a means of enforcing its strategy of maintaining inflated domestic prices for the products themselves.

1. Material Facts

L'anza is a United States corporation that manufactures and distributes hair care products. Pet. App. A2. The individual owners of L'anza also own a 40% interest in Planetary Eco, Ltd., which serves as the United Kingdom distributor for L'anza products. J.A. 65; Pet. App. A2. In 1992 and 1993, L'anza sold three separate shipments of its products to Planetary Eco at prices that were 35-40% lower than the prices that L'anza charged its United States distributors for

the same goods. Pet. App. B2; J.A. 64, 67. Planetary Eco, in turn, sold the goods to L. Intertrade, a company located on the island of Malta. Pet. App. A2.

The goods in question were manufactured by L'anza itself in the United States. Pet. App. A2. L'anza shipped the goods from the United States for delivery to L. Intertrade in Malta, although the record is unclear whether the goods ever arrived there. Pet. App. A2, A3 n.1. At the time it sold and shipped the goods, L'anza understood that they would be distributed in Malta and "possibly Libya." Pet. App. A2; J.A. 65. Planetary Eco, perhaps due to the U.S. embargo on exports to Libya, requested that no documents other than the packing list be sent with the shipments to L. Intertrade. J.A. 79. None of the invoices issued to Planetary Eco contained any restrictions on where the goods could be sold, and there is no evidence that any of the goods contained markings that would notify a prospective purchaser that they were not to be sold in the United States. J.A. 70, 75, 77. Although L'anza introduced conclusory testimony below that the goods were intended to be sold only in Malta or Libya, it produced no documents under which either Planetary Eco or L. Intertrade agreed to such restrictions.

At some point after L'anza introduced the goods into the stream of commerce, at least some of them were acquired by Priva Corporation, a United States company located in California. *See* Declaration of John K. McKasson ¶ 7 & Ex. 6 thereto (R. 88). Priva then sold those goods to Quality King. *Id.* Quality King is a discount wholesaler that routinely buys large quantities of a wide variety of genuine consumer products—both imported and domestic—at the lowest possible price and then resells the products to discount retailers. In the trial court, L'anza produced no evidence that Quality King was the importer of the goods. Rather, as the District Court noted, L'anza alleged only that some of the products that were sold to L. Intertrade "were imported into the United States where they passed through the stream of commerce until they were purchased by Quality King in the

ordinary course of its business." Pet. App. B3.[1] Quality King then sold the L'anza products to various discount drug stores, which offered the products for retail sale to the public. Pet. App. A2, A3. In January 1994, L'anza registered the copyrights for the labels on at least some of those products. Pet. App. A3.

There is no dispute that the goods at issue in this case are genuine goods manufactured and first sold by L'anza itself, and there is likewise no allegation that the products or their labels were improperly copied, altered or adulterated in any way. Nevertheless, L'anza brought this action against Quality King, six discount drug stores that had purchased the goods, L. Intertrade, and two individuals.[2] L'anza alleged, among other things, that Quality King had violated Section 602(a). J.A. 23. Quality King responded by denying liability for copyright infringement and by asserting, among other things, that because L'anza had itself introduced the products into the stream of commerce, the first sale doctrine codified in Section 109(a) prevented L'anza from prevailing in an action against Quality King—the lawful owner of goods lawfully made—for allegedly violating Section 602(a). J.A. 44.

2. Procedural History

L'anza moved for partial summary judgment on the question of whether the first sale doctrine barred this action. J.A. 47. The District Court granted the motion, holding that

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[1] The Ninth Circuit, without any citation to the record, stated in *dicta* that Quality King had imported the goods. *See* Pet. App. A2, A17. As explained above, however, the factual record before the district court makes clear that the Ninth Circuit was mistaken. Indeed, L'anza had asserted that it was irrelevant whether Quality King had any connection with the importation. *See* Memorandum of Points and Authorities of Plaintiff L'anza Research International in Support of Its Motion for an Order Specifying Issues That Exist Without Substantial Controversy as to Defendant Quality King Distributors, Inc. at 10-13 (R. 57).

[2] The claims against the drug stores were eventually settled. L. Intertrade and the individuals never appeared in this action.

because the goods in question had been imported into the United States without L'anza's authorization—regardless of whether Quality King was itself the importer—Quality King was liable for infringement under Section 602(a) and the first sale doctrine provided no defense. Pet. App. B3; J.A. 103. The court reasoned that "Congress * * * could not have envisioned that the first sale doctrine could create a situation where the copyright holder must compete in the United States against its own copies or refrain from selling its copies at different prices for different markets." Pet. App. B8. The parties then stipulated to the amount of damages that would be applicable if the District Court's liability decision were correct, and judgment was entered for that amount. J.A. 113. The court also entered a permanent injunction enjoining Quality King from importing or selling specified L'anza products. J.A. 109.

Quality King appealed, and the Ninth Circuit affirmed, expressly rejecting the Third Circuit's contrary holding in *Sebastian International, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). The Ninth Circuit recognized that, under the first sale doctrine, "once the copyright owner has voluntarily sold his work to the public, the new owner may transfer or sell the copy without the permission of the owner, pursuant to § 109." Pet. App. A11. The court also recognized that "[t]he legislative history of the 1976 Copyright Act contains no explicit reference to the interaction between §§ 602(a) and 109(a)." Pet. App. A12. Nevertheless, without even analyzing the relevant statutory language in any detail, the court held that applying the first sale doctrine in this case would "undercut[ ] L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels, notwithstanding the fact that the imported products were manufactured in the United States and sold by L'anza." Pet. App. A14. Under this conception of Section 602(a)'s purpose, the court held that the statute "would be rendered meaningless" if Quality King were permitted to avail itself of the protections of Section 109(a). Pet. App. A9, A11.

3. The Lawful Practice of Parallel Importation

In its broader context, this case concerns a variant of the lawful practice of "parallel importation," also referred to as the "gray market."[3] As described by this Court in *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281 (1988), "[a] gray-market good is a foreign-manufactured good, bearing a valid United States trademark, that is imported without the consent of the United States trademark holder." *Id.* at 285.[4] Due to the obvious benefits it provides to consumers, parallel importation is now a legitimate "multibillion dollar industry." *Id.* at 295 (Brennan, J., concurring and dissenting).

Opponents of the practice—primarily manufacturers and their affiliates who, like L'anza, wish to maintain higher prices for their products in this country—"have waged a full-scale battle in legislative, executive, and administrative fora," directed at attempting to block parallel importation through customs statutes and regulations. *Id.* at 295-296. But "[l]argely unsuccessful in the political branches," the manufacturers "have more recently brought the battle to the courts." *Id.* at 296.

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[3] The term "parallel importation" refers generally to the practice of importing goods that "have not been obtained directly from 'authorized' United States dealers. The purchase, importation and sale of such goods is said to be 'parallel' to the channels 'authorized' by the international trademark owners." Jamie S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 N.C. J. Int'l L. & Comm. Reg. 205, 205 n.1 (1986). The term "gray market" is typically used by opponents of the practice because it bears an "innuendo of impropriety or borderline legality." *Id.* at 207 n.5. As this case demonstrates, however, "[t]here is * * * nothing underhanded about the business practice at issue. The goods are the authentic trademarked items, purchased openly on the open market. The goods are declared, customs duties are paid, and the products are sold in the United States by reputable, well-established domestic retailers." *Id.*

[4] This case does not fall within that precise description, as the goods in question were manufactured in the United States.

Like their other efforts, however, the manufacturers' attempts to use the courts to stop lower-price retailers have largely failed as well. These efforts initially focused on the areas of law that would appear to be most directly implicated by parallel importation—trademark and customs laws. The trademark challenges, predicated on the Lanham Act, have failed for the most part, principally because parallel importation involves genuine goods lawfully manufactured under the auspices of the trademark owner or an affiliate and therefore does not create any risk of confusion in the minds of the consuming public. *See, e.g., Societe Des Produits Nestle, S.A.* v. *Casa Helvetia, Inc.*, 982 F.2d 633, 639 (1st Cir. 1992); *NEC Electronics* v. *CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir.), *cert. denied*, 484 U.S. 851 (1987). Likewise, the manufacturers' attempts to use the customs laws foundered with this Court's decision in *K Mart*. In that case, the Court upheld Customs Service regulations, issued under Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, that prevent domestic affiliates of foreign manufacturers from blocking the importation of genuine goods manufactured abroad.

In light of these precedents, L'anza could not prevail in an action against Quality King for violating any provision of trademark or customs law. The goods in question were manufactured by L'anza itself in the United States and are identical to other genuine L'anza products sold here. Accordingly, L'anza had no cause of action under the trademark laws. And because the goods are of domestic, not foreign, manufacture, L'anza could not avail itself of the protections of the Tariff Act.[5]

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[5] In an action currently pending in the California state courts, L'anza alleged that Quality King committed various state law business torts in connection with the sale of other L'anza products. The jury found in favor of L'anza in that matter, but Quality King has appealed that judgment to the California Court of Appeal. *See L'anza Research Int'l, Inc.* v. *Quality King Distributors, Inc.*, No. 2 Civil B097409 (Cal. Ct. App.).

Nevertheless, because its hair care products happen to contain a small amount of copyrighted material on the labels, L'anza has sought to use the Copyright Act to achieve what it could not under other areas of law. In this case, L'anza is attempting to use its rights as the "author" of its labels to promote its broader strategy of maintaining inflated domestic prices for the underlying products themselves. As explained below, however, neither the plain language of the Copyright Act nor its legislative history or policies allow L'anza to use its limited creative rights to further its commercial resale pricing strategy.

SUMMARY OF ARGUMENT

The Ninth Circuit erred in holding that the first sale doctrine contained in Section 109(a) of the Copyright Act provides no defense to L'anza's claim that Quality King infringed L'anza's distribution rights under Section 602(a). Section 109(a) provides that "the owner of a particular copy or phonorecord lawfully made under this title" is entitled to sell or otherwise dispose of that copy without the authority of the copyright owner. 17 U.S.C. § 109(a). Pursuant to that plain language, Quality King—the lawful owner of goods lawfully made—was entitled to sell or otherwise dispose of those copies.

Nothing in Section 602(a) overrides the blanket authorization of Section 109(a). Section 602(a) provides only that unauthorized importation of copyrighted works is an infringement "of the exclusive right to distribute copies or phonorecords *under section 106*." *Id.* § 602(a) (emphasis supplied). That exclusive right to distribute is found in Section 106(3), which itself is expressly made "[s]ubject to sections 107 through 120." *Id.* § 106(3). And Section 109(a), in turn, expressly states that its defense applies "[n]otwithstanding the provisions of section 106(3)." *Id.* § 109(a). Accordingly, pursuant to the plain language of these statutes, Quality King was entitled to sell or otherwise dispose of the goods containing L'anza's copyrighted labels without infringing L'anza's exclusive right of distribution—including that aspect of the distribution right elucidated in

Section 602(a). When Congress intends to create an independent right under the Copyright Act that is not subject to the exceptions in Sections 106 through 120, it does so expressly. It did not do so here. Rather, Congress expressly made Section 602(a) an additional component of the distribution right under Section 106 and, as such, necessarily rendered Section 602(a) subject to the first sale defense.

Because the plain language of the statutes dictates the proper result in this case, there is no cause for the Court to consult the legislative history. But even if the Court were to do so, the relevant legislative history confirms that Congress intended Section 602(a) to apply only where the subsequent distribution of copyrighted works would itself be an infringement of the copyright owner's exclusive right of distribution under Section 106(3). Thus, the legislative history confirms what is apparent from the statutory language itself: in situations where Section 109 would not allow a copyright owner to block domestic distribution, it likewise would not allow the copyright owner to block importation.

Contrary to the holding of the Ninth Circuit, such an interpretation would not render Section 602(a) meaningless. Because the mere act of importation is not otherwise covered by Section 106(3), absent Section 602(a) a copyright owner would have no ability to block the importation of a copyrighted work in circumstances where subsequent public dissemination would infringe the owner's exclusive distribution rights. Section 602(a) therefore provides the copyright owner with an important remedy that otherwise would not exist, potentially obviating the need for the copyright owner to pursue multiple, costly lawsuits against subsequent distributors.

Because Section 602(a) clearly has "meaning" when interpreted in this manner, there is no cause for the Court to opine in this case on the hypothetical situations in which Section 602(a) might prevent importation of copyrighted works notwithstanding the applicability of Section 109(a). But to the extent such an inquiry is relevant here, there are many such possible instances—including piratical works,

stolen works, works imported by licensees who lack title to them, and works made by foreign copyright holders without the express or implicit authorization of an unrelated United States copyright holder. This case, however, does not present any of those situations, as there is no dispute that Quality King is the lawful owner of copies lawfully made within the meaning of Section 109(a).

Finally, Quality King's interpretation, unlike the Ninth Circuit's, is wholly consistent with the policies underlying the Copyright Act. The Court has stressed that copyright law was intended primarily to motivate the creativity of authors, and makes reward to the owner a secondary consideration. Consistent with these concerns, the first sale doctrine balances the copyright owner's right to control the first public distribution of its copyrighted works against the public's interest in unfettered access to those works once the copyright owner has parted with them. The Ninth Circuit's interpretation of Section 602(a) as a device for promoting private resale pricing strategies, even after the copyright owner has received its price for its works, is contrary to those policies.

The Ninth Circuit's focus on whether the copyright owner has received "full value" for copies that find themselves abroad would create unjustified barriers to free commerce in goods containing copyrighted material. Each importer and subsequent reseller would have to search the chain of title and determine whether the copyright owner received what some court might consider "full" value for the work. Moreover, the Ninth Circuit's rule would improperly foster a two-tiered system under which imported works sold by a copyright owner, unlike identical works that never leave the country, would continue to be subject to the copyright owner's control over their importation and subsequent distribution. The Court should not impose such draconian restrictions on free trade and commerce where Congress has not. If L'anza wishes to implement a commercial price discrimination strategy, it may seek to do so through contractual remedies or other lawful private means. But it

may not use its status as the nominal "author" of its labels to implement that strategy through the Copyright Act.

ARGUMENT

I. UNDER THE PLAIN LANGUAGE OF THE COPYRIGHT ACT, L'ANZA'S SALE OF ITS GOODS PREVENTS IT FROM BLOCKING IMPORTATION OR OTHER DISTRIBUTION OF THOSE GOODS

The Constitution grants Congress the power "[t]o Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. The protection given to copyrights, however, "is wholly statutory," and the Copyright Act "has never accorded the copyright owner complete control over all possible uses of his work." *Sony Corp. of America* v. *Universal City Studios, Inc.*, 464 U.S. 417, 431, 432 (1984). Rather, Section 106 of the Act grants the copyright holder exclusive rights to use his or her work "in five qualified ways," *id.* at 433, including " 'the right to control the first public distribution' " of the work. *Harper & Row, Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539, 552 (1985) (quoting H.R. Rep. No. 1476, 94th Cong., 2d Sess. 62 (1976) [hereinafter "House Report"]).

Specifically, Section 106(3) provides that:

> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> * * *
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending; * * * .

17 U.S.C. § 106(3).

This exclusive right of distribution under Section 106(3) is further explicated in Section 602(a), which provides:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

17 U.S.C. § 602(a). Thus, pursuant to Section 602(a), the act of importing copies acquired outside the United States—which the copyright owner otherwise would be unable to control—is considered to be an infringement of the exclusive distribution right "under section 106." *Id.*

None of the copyright owner's exclusive rights, however, is absolute. Rather, as the opening clause of Section 106 confirms, "the copyright owner's rights * * * are subject to certain statutory exceptions," which are contained in Sections 107 through 120. *Harper & Row*, 471 U.S. at 547; *see Sony*, 464 U.S. at 447. Among these exceptions is Section 109(a), the "first sale" doctrine, which provides in pertinent part:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a).

The principal question in this case is whether Section 602(a), like the other components of the distribution right, is limited by the first sale doctrine of Section 109(a). The Ninth Circuit held that "it is unclear whether § 602(a) creates a right that is distinct from § 106(3) and therefore is not limited by § 109(a), or alternatively, whether § 602(a) is merely an extension of § 106(3) and therefore *is* limited by § 109(a)." Pet. App. A6 (emphasis in original). Having thus concluded that the statutory language was ambiguous on this point, the court proceeded to hold, on the basis of policy considerations purportedly gleaned from legislative history, that a copyright owner's right to block importation under Section

602(a) is absolute, and is not subject to the first sale doctrine of Section 109(a). Under this interpretation, a copyright owner who voluntarily sold copies of his or her works would still be able to control the importation (and subsequent distribution)[6] of the same copies acquired abroad, no matter how many times the copies had been sold in the interim.

Contrary to the Ninth Circuit's holding, however, the statutory language conclusively answers the principal question posed by this case. The safe harbor provided by Section 109(a) is unqualified. Under its plain language, the "owner of a particular copy or phonorecord lawfully made" is entitled "to sell or otherwise dispose of the possession of that copy or phonorecord." *Id.* There is no dispute in this case that the copyrighted labels on the L'anza products acquired by Quality King were "lawfully made" under the Copyright Act—indeed, they were made by L'anza itself. There can also be no dispute that Quality King, although not the owner of the copyright, is the "owner" of the particular copies at issue, having lawfully purchased the products bearing the labels from another distributor. Accordingly, pursuant to the plain language of Section 109(a), Quality King should have

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[6] In a previous case, *Parfums Givenchy, Inc.* v. *Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 514 U.S. 1004 (1995), the Ninth Circuit held that once a work has been imported in violation of Section 602(a), every subsequent distributor violates Section 602(a) as well, regardless of whether the distributor had any connection to the importation. Thus, even though Quality King did not import the goods in question, under the Ninth Circuit's rule Quality King nevertheless violated Section 602(a)'s ban on "importation." That rule, however, contravenes the plain language of Section 602(a), which addresses only the act of "importation," as well as the plain language of Section 109(a), which unambiguously allows the "owner" of any lawfully made copy to sell or otherwise distribute that copy. *See Disenos Artisticos E Industriales, S.A.* v. *Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996) (expressing doubt as to the correctness of *Parfums Givenchy* rule). The breadth of the Ninth Circuit's rule—which unfairly imposes liability on the unsuspecting remote purchasers of genuine goods—further supports reversal of the judgment below.

been entitled to sell or otherwise dispose of the possession of those particular copies without L'anza's authorization.

Nothing in the language of Section 602(a) overrides Section 109(a)'s blanket authorization. To the contrary, Section 602(a) provides only that unauthorized importation is an "infringement of the exclusive right to distribute copies or phonorecords *under section 106*." 17 U.S.C. § 602(a) (emphasis supplied). Section 106, in turn, provides that it is "subject to sections 107 through 120," which provisions include the first sale doctrine of Section 109(a). *Id.* § 106. Finally, Section 109(a) provides that every purchaser of a copy lawfully made under the Copyright Act is entitled to sell or otherwise dispose of the possession of that copy "[n]otwithstanding the provisions of section 106(3)." *Id.* § 109(a).

This language is unambiguous and dictates the proper result in this case. When it created its labels and affixed them to its products, L'anza had the exclusive right to distribute those labels under Section 106(3), a right that was further defined in Section 602(a) to include the right to control their importation. However, L'anza's Section 106 distribution right—which includes the right to control importation—is expressly made subject to Section 109(a). Thus, once L'anza sold the products to its United Kingdom distributor, every subsequent purchaser, including Quality King, was entitled to sell or otherwise transfer those products without violating L'anza's exclusive distribution rights, including that aspect of the distribution right defined in Section 602(a).

In other words, under Section 109(a) L'anza's sale of its products cut off its right of distribution under Section 106(3) and left no such right to be infringed under Section 602(a). As the Third Circuit explained in *Sebastian*, *supra*:

> Section 602(a) does not purport to create a right in addition to those conferred by section 106(3), but states that unauthorized importation is an infringement of "the exclusive [section 106(3)] right to distribute copies."

> Because that exclusive right is specifically limited by the first sale provisions of § 109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.

847 F.2d at 1099 (bracketed material in original). Indeed, it is difficult to understand why Congress would have expressly made Section 602(a) part of the Section 106 distribution right except to make clear that the right to control importation was subject to the same limitations as the rest of the distribution right.[7]

There is simply no support in the statutory language for the Ninth Circuit's conclusion that Section 602(a) confers upon a copyright owner the absolute right—divorced from Section 106 and Section 109—to control the importation and subsequent domestic distribution of any copyrighted work that is acquired abroad. When Congress intends to create a separate right independent of the exclusive rights created by Section 106, it does so expressly. Thus, in 1990 Congress provided for a separate right of "attribution and integrity," codified in Section 106A, that permits an author of a visual work to control, in certain circumstances, the subsequent use and display of the work. Importantly, Congress expressly declared that this right was "independent of the exclusive rights provided in Section 106" and that transfer of ownership of the work does not constitute a waiver of the Section 106A right. *See* 17 U.S.C. § 106A(a), (e)(2). That Congress did not likewise provide that the rights conferred by

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[7] In this respect, it should be noted that the preliminary draft of Section 602(a) provided only that importation would be "an infringement of copyright" if not authorized by the holder of the exclusive distribution right, while the final statute expressly makes unauthorized importation an infringement of the distribution right itself. *Compare* Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision, Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 293 (Comm. Print 1965), *with* 17 U.S.C. § 602(a).

Section 602(a) are independent of the Section 106 rights is a further demonstration that it did not intend such a result.

In fact, if the Ninth Circuit were correct that Section 602(a) confers an absolute right that is not subject to Section 109(a), then it would follow that the right is not subject to any of the *other* exceptions contained in Sections 107 through 120. For example, among these exceptions is the "fair use" doctrine of Section 107 which (much like Section 109) provides that "[n]otwithstanding the provisions of section[ ] 106," the "fair use" of a copyrighted work is not an infringement. Under the Ninth Circuit's reasoning, however, Section 602(a) would not be limited by Section 107 and a copyright owner would be able to block the importation and subsequent distribution of any work (such as a scholarly treatise or a newspaper published abroad) that contains any U.S. copyrighted material, regardless of whether the use of the material in the work otherwise would constitute fair use under Section 107. Congress plainly did not provide for such a draconian restriction on the free exchange of expression across international borders.

For all these reasons, the Court need look no further than the plain language of the statute in order to decide this case. This Court has stressed that courts have properly been "reluctan[t] to expand the protections afforded by the copyright without explicit legislative guidance." *Sony*, 464 U.S. at 431. Here, Congress plainly did not provide copyright owners with the expansive protection that L'anza seeks, and "it is not [the Court's] job to apply laws that have not yet been written." *Id.* at 456. *See Sebastian*, 847 F.2d at 1099 ("[T]he controversy over 'gray market' goods, or 'parallel importing,' should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.").

II. THE LEGISLATIVE HISTORY DOES NOT COMPEL A CONTRARY RESULT

It is well-settled that where, as here, the statutory language is unambiguous, that is the end of the question and there is no

cause for the Court to resort to legislative history. For "'[r]esort to legislative history is only justified where the face of the Act is inescapably ambiguous.'" *Garcia* v. *United States*, 469 U.S. 70, 76 n.3 (1984) (citation omitted). *See also Barnhill* v. *Johnson*, 503 U.S. 393, 401 (1992); *Toibb* v. *Radloff*, 501 U.S. 157, 162 (1991); *Blum* v. *Stenson*, 465 U.S. 886, 896 (1984). As explained above, the statutory language is clear that the rights of a copyright owner under Section 602(a) are subject to Section 109(a), and nothing contained in legislative history could override that unambiguous language.

But even if the Court were to conclude that the statutory language is ambiguous, the legislative history (to the extent it touches on the issue at all) supports Quality King's interpretation. As the Ninth Circuit itself recognized, nothing in the legislative history of the Copyright Act of 1976 expressly addresses the interrelationship between Sections 602(a) and 109(a). Pet. App. A12. However, the legislative history of both of these provisions consistently supports the conclusion that Congress intended for Section 602(a) to be subject to the first sale defense.

A. Legislative History of Section 602(a)

The legislative history of Section 602(a) makes quite clear that that provision was to be treated no differently from the other components of the distribution right. Both the House and Senate reports to the 1976 Act clarify that Section 602(a) was intended to apply both to unauthorized "piratical" copies and, in certain circumstances, to copies that were lawfully made. House Report, *supra*, at 169; S. Rep. No. 473, 94th Cong., 1st Sess. 151 (1975) [hereinafter "Senate Report"]. But these reports also make clear that:

> The second situation covered by section 602 is that where the copies or phonorecords were lawfully made *but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights*. As already said, the mere act of importation *in this situation* would constitute an act of infringement and could be enjoined.

House Report, *supra*, at 170; Senate Report, *supra*, at 152 (emphasis supplied).

This language plainly reveals that Section 602(a) was intended to apply to lawfully made copies only where subsequent distribution would infringe the U.S. copyright owner's exclusive rights delineated in Section 106(3). It is only "in this situation" that importation would constitute an act of infringement. Of course, one of the principal instances where distribution in the United States would *not* violate the copyright owner's exclusive rights is where the copyright owner has already sold copies of the work. In this situation, Section 109(a) provides that any subsequent owner of a copy may sell or otherwise dispose of that copy without violating the copyright owner's exclusive distribution right. Accordingly, the legislative history confirms what is clear from the statutory language: Section 602(a) bars importation only when Section 106(3) otherwise would bar subsequent public distribution in this country.

B. Legislative History of Section 109(a)

This understanding is confirmed by the legislative history of Section 109(a). Like the statutory language itself, the legislative history of Section 109(a) confirms that that provision was intended to provide that any owner of a lawfully made copy may dispose of that copy in any manner without violating the copyright owner's right of distribution.

The first sale doctrine was originally a judicially crafted exception to the copyright owner's exclusive right to distribute (referred to in earlier statutes as the right to "vend"). Thus, in *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908), this Court construed the Copyright Act in existence at that time to include a first sale doctrine. In that case, a copyright holder had attempted to control the resale price of its books by including a restriction in the book's copyright notice, and had contended that the right to control further sales in this manner was part of its exclusive right to vend. The Court disagreed, holding that "[t]he purchaser of a book, once sold by authority of the owner of the copyright, may sell it again,

although he could not publish a new edition of it." *Id.* at 350. The Court held that once the copyright owner had sold its works it had "exercised the right to vend" and that adding an exclusive right to control future retail sales "would give a right not included in the terms of the statute" and would "extend its operation, by construction, beyond its meaning." *Id.* at 351.

Congress then codified the first sale doctrine in Section 41 of the Copyright Act of 1909 (later renumbered Section 27). That section provided, in part, that "nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained." Act of July 30, 1947, ch. 391, § 27, 61 Stat. 652, 660 (codifying and amending Act of Mar. 4, 1909, ch. 320, § 41, 35 Stat. 1075, 1084). The legislative history of that enactment—from which the first sale doctrine apparently derives its name—made clear Congress' intent that "it would be most unwise to permit the copyright proprietor to exercise *any control whatever* over the article which is the subject of copyright after said proprietor has made the first sale." H.R. Rep. No. 2222, 60th Cong., 2d Sess. 19 (1909) (emphasis supplied).

When Congress extensively revised the Copyright Act in 1976, it enacted Section 109(a) in its current form. The legislative history of that provision notes that "as section 109 makes clear, *the copyright owner's rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.*" House Report, *supra*, at 62; Senate Report, *supra*, at 58-59 (emphasis supplied). As Congress explained, "the copyright owner's exclusive right of public distribution would have no effect upon anyone who owns 'a particular copy or phonorecord lawfully made under this title' and who wishes to transfer it to someone else or to destroy it." House Report, *supra*, at 79; Senate Report, *supra*, at 71. Thus, "the outright sale of an authorized copy of a book frees it from *any copyright control* over its resale price or other conditions of its future disposition." *Id.* (emphasis supplied).

As can be seen, the legislative history of Section 109(a) and the case law from which it was derived make clear—like the statute itself—that the provision was intended to be an unqualified right for any owner of a lawfully made copy to distribute or otherwise dispose of that copy. Once the copyright owner has parted with ownership of a copy, Congress intended that his distribution rights would "cease" and "have no effect" on a subsequent owner who wishes to dispose of the copy, and that the copy would be freed from "any copyright control" over its resale price or future disposition. Yet L'anza nevertheless contends that it has the right to use Section 602(a) to control the importation and subsequent distribution of its products, and thereby maintain a higher domestic resale price for those products, merely because the products at one point left the country. Such an evisceration of the first sale doctrine is contrary to the legislative history as well as the plain language of the statute.

C. Informal Panel Discussions on 1976 Act

The Ninth Circuit, largely ignoring this legislative history, relied instead on "scenarios that were discussed by representatives of the printing and recording industry" during informal panel discussions held more than a decade before the statute was enacted. *See* Pet. App. A12-A13. Such statements by lobbyists and other interested parties—which were neither made by a member of Congress nor included in the official House or Senate reports—are not legislative history and are therefore to be accorded no significance in interpreting the statute. *See, e.g., Kelly* v. *Robinson*, 479 U.S. 36, 51 n.13 (1986).[8] Representatives of the printing and recording

[8] Moreover, in the foreword prepared by the House Judiciary Committee accompanying the comments relied on by the Ninth Circuit, the Committee stated that it "neither approve[d] or disapprove[d] of any of the views expressed therein." Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., *Copyright Law Revision, Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law*, Foreword (Comm. Print 1963) [hereinafter *1961-1962 Discussions*].

industry may indeed have desired an absolute right to block imports of certain competing copies in order to maintain discriminatory pricing regimes. But their personal views, expressed years before the statute was enacted, can shed no light whatsoever on what that statute actually provides.[9]

Even if these discussions were relevant, however, when the precise question now before the Court arose during hearings, it was recognized by the drafters of Section 602 that the language of Section 109 would restrict the proposed import prohibition. During a 1964 panel discussion, a representative of the Authors League of America asked whether the following scenario would constitute infringement under the proposed Section 602 (then numbered Section 44): "some American importer buys [a book] from a German jobber, who legitimately bought copies from the German publisher who had the authority to make and sell them," and the "American importer then sells them to a retail bookseller, and the retail bookseller sells one of these copies." Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law* 210 (Comm. Print 1964) (statement of Mr. Karp) [hereinafter, "*1963-1964 Discussions*"]. More specifically, the authors' representative asked whether the first sale defense in proposed Section 109 would be applicable, noting that a contrary interpretation might "run[ ] into the problem of restricting his transfer of his lawfully obtained copies." *Id.* at 211.

The General Counsel of the Copyright Office—the agency that prepared the preliminary drafts of the 1976 Act—

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[9] And in any event, Congress was also aware of the view, expressed by a library representative in commenting on a draft of Section 602, that in light of the first sale doctrine "[o]nce a copyrighted article is lawfully purchased, there should be no geographical restriction on where the purchaser can resell." *Copyright Law Revision, Part 1: Hearings Before the Subcomm. No. 3 of the House Comm. on the Judiciary*, 89th Cong., 1st Sess. 468 (1965) (statement of Robert T. Jordan of the Council on Library Resources) (citing first sale provision).

responded that the "whole answer depends on whether the distribution that would take place in the United States would itself constitute an infringement of copyright." *Id.* (statement of Mr. Goldman). The Copyright Office representative, moreover, consistently espoused that interpretation during the entire discussion.[10] While these statements are in no sense legislative history, they do indicate the understanding of the original governmental drafters of Section 602 that the first sale doctrine would limit the right to prohibit imports if—but only if—it would limit the right to prohibit subsequent distribution in the United States. In other words, if domestic distribution would itself be infringement, then the copyright holder could block importation. But if domestic distribution would not be infringement under the first sale doctrine, then importation would be permitted.

III. APPLYING SECTION 109(a) IN THIS CASE DOES NOT RENDER SECTION 602(a) MEANINGLESS

The Ninth Circuit ultimately based its holding not on the language of the statute or on actual legislative history, but rather on its belief that Section 602(a) would be rendered "meaningless" if Quality King were allowed to prevail. *See* Pet. App. A9, A11. As explained below, the Ninth Circuit was mistaken. Applying the first sale doctrine to Section 602(a) does not render that statute meaningless at all.

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[10] *See id.* at 203 (proposed Section 44 addresses "importation for distribution in the United States of foreign copies that were made under proper authority *but that, if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States*"); *id.* at 203-204 ("the importation of copies for distribution in the United States *in contravention of the rights of the copyright holder in the United States*, would be an infringement of copyright"); *id.* at 204 (under proposed provision, "the only question is whether their distribution in the United States would constitute a violation of the rights of the copyright owner in the United States"); *id.* at 206 ("If there is no one whose rights are being infringed by distribution in the United States, there is nothing that this section applies to.") (emphases supplied).

To the contrary, Section 602(a) provides the copyright owner with an important remedy that otherwise would not exist: the ability to deter and block the importation of copyrighted materials prior to actual public distribution in circumstances where that subsequent distribution would be an infringement under Section 106(3).

A. Section 602(a) Provides an Additional Remedy That Otherwise Would Not Exist

As the Ninth Circuit recognized (*see* Pet. App. A12), absent Section 602 the act of "importation" would not constitute a "distribution" of a copy that could infringe the copyright owner's distribution rights. That is because importation does not otherwise fall within the definition of distribution in Section 106(3). *See, e.g.*, *Hotaling* v. *Church of Jesus Christ of Latter-Day Saints*, __ F.3d __, 1997 WL 356930 at *3 (4th Cir. June 30, 1997) ("In order to establish 'distribution' of a copyrighted work, a party must show that an unlawful copy was disseminated 'to the public.'") (quoting 17 U.S.C. § 106(3)); *National Car Rental Sys., Inc.* v. *Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 434 (8th Cir.) (infringement of distribution right requires an actual dissemination of copies), *cert. denied*, 510 U.S. 861 (1993); 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.11[A] at 8-137 (1997) (same). Thus, as Congress recognized, under Section 602(a) a copyright owner could sue an unauthorized importer for damages and enjoin him from making use of the copies "even before any public distribution in this country has taken place." House Report, *supra*, at 170; Senate Report, *supra*, at 152. This is in accord with Congress' understanding, discussed above, that Section 602(a) would apply whenever "distribution in the United States would infringe the U.S. copyright owner's exclusive rights." *Id.*

Construed in this manner, Section 602(a) is far from "meaningless." It allows a copyright owner to prevent importation of copyrighted works in any situation where the copyright owner's distribution right under Section 106(3) still survives for the particular copy in question. If the first

sale doctrine would not protect subsequent distribution, then it would not protect importation either. Accordingly, Section 602(a) provides copyright owners with a potent weapon that they would not otherwise have: the ability to block importation of copies *before* they have actually been distributed in this country in violation of the owner's exclusive rights. The statute thereby obviates the need for the copyright owner to wait for public distribution to occur, at which point it might be difficult or impossible for the copyright owner to prevent the distribution from occurring. This is particularly so if the copies find their way into the hands of multiple distributors. For even if the first sale doctrine would not prevent the copyright owner from suing those resellers, the costs of locating and proceeding against numerous small retailers in numerous jurisdictions could be prohibitive.

B. Section 602(a) Applies to Non-Piratical Copies

The Ninth Circuit also asserted that applying Section 109(a) to Section 602(a) would render the latter statute meaningless because there would be no circumstances in which it could be applied consistent with Congress' apparent intent that Section 602(a) apply to both "piratical" and "non-piratical" copies. As explained above, however, the fact that Section 602(a) provides the copyright owner with additional procedural advantages that otherwise would not exist is a complete answer to the contention that the statute would have no meaning if subject to Section 109(a). Moreover, there can be no dispute that the Section 106(3) right to control domestic public distribution applies both to piratical and non-piratical copies and that it is fully subject to Section 109(a). Accordingly, just as this domestic distribution right is not "meaningless," Section 602(a)—which provides an additional remedy against importation prior to any infringing public distribution—also has "meaning" when subject to Section 109(a) in the same manner.

It is therefore unnecessary to catalog here all of the hypothetical instances in which Section 602(a) would prohibit the importation of works because the terms of Section 109 would not apply. But to the extent that inquiry is

relevant to the question presented by this case, a few examples will suffice to demonstrate that Section 602(a) does in fact have substantial practical effect under the interpretation we advocate.

First, there is no dispute that Section 602(a) would apply fully to the importation of piratical works, which was the principal evil Congress was attempting to address. Because Section 109(a) applies only to copies that were "lawfully" made, the pirate himself—as well as anyone else who attempts to import or distribute counterfeit works—will not receive Section 109(a) protection. *See* House Report, *supra*, at 79; Senate Report, *supra*, at 72; 2 Nimmer & Nimmer, *supra*, § 8.12[B][4] at 8-158 to 8-159.

But in addition, Section 602(a) also has significant meaning when applied to non-piratical works. For example, because Section 109(a) applies only to the "*owner* of a particular copy or phonorecord," a thief who stole a lawfully made copy abroad would be prohibited from importing it, as the thief plainly would not be the "owner" of that copy. *See* 2 Nimmer & Nimmer, *supra*, § 8.12[B][5] at 8-159. Importation of stolen works was one of the principal problems the Ninth Circuit believed Section 602(a) was designed to prevent. *See* Pet. App. A13 (citing *1961-1962 Discussions*, *supra*, at 213 (statement of Mr. Sargoy)); *see also 1963-1964 Discussions*, *supra*, at 214 (statement of Mr. Whicher). Yet contrary to the Ninth Circuit's apparent belief, the first sale doctrine would not prevent the application of Section 602(a) in such circumstances, for the reasons stated above. The same analysis, moreover, would apply to a bailee of a copyrighted work (for example, a shipper or a warehouse company) that attempts to import the work without authorization. Because the bailee is not the owner of the copy, it would not be entitled to the protection of Section 109(a). *See Little, Brown & Co.* v. *American Paper Recycling Corp.*, 824 F. Supp. 11 (D. Mass. 1993).

Likewise, where a copyright owner has licensed a foreign company to reproduce its works but has not given the licensee title to the copies or other incidents of ownership,

Section 602(a) would prevent the licensee from importing the works without the authorization of the copyright owner. That is because the licensee would not be considered the "owner" of the particular copy and therefore would not be entitled to the protection of Section 109(a), whether in an action for unauthorized importation under Section 602(a) or for infringement of other components of the Section 106(3) distribution right. *See, e.g., United States* v. *Drebin*, 557 F.2d 1316, 1326 (9th Cir. 1977) (under 1909 Act, defendants accused of unlawfully distributing motion pictures could not utilize first sale defense where works had only been licensed and never sold), *cert. denied*, 436 U.S. 904 (1978); *United States* v. *Wise*, 550 F.2d 1180, 1190-94 (9th Cir.) (same), *cert. denied*, 434 U.S. 929 (1977); *cf. Microsoft Corp.* v. *Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y 1994) ("Entering a license agreement is not a 'sale' for purposes of the first sale doctrine.").[11]

Finally, where an author has assigned the United States copyright in his work to a domestic entity and the foreign copyright to an unrelated foreign entity, it is likely that Section 109(a) would not preclude the United States copyright holder from preventing the unauthorized importation and distribution of copies made abroad solely pursuant to the foreign copyright. Section 109(a) applies only to copies lawfully made "under this title," *i.e.*, pursuant to the terms of the *United States* Copyright Act. Pursuant to Section 106, the U.S. copyright holder has the exclusive U.S. right to reproduce, and to authorize the reproduction of, the work that is the subject of the domestic copyright. Thus, a copy made by, or under the authorization of, the United States copyright holder, would doubtless be "lawfully made under this title"

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[11] That is not to say, however, that anyone who purchases a copy from a licensee would be unable to claim the protection of Section 109(a). As explained above, *see supra* n. 6, as long as a subsequent purchaser is the valid "owner" of a copy lawfully made under the Copyright Act, the plain language of Section 109(a) protects that purchaser regardless of whether the copy may previously have been distributed or imported in violation of the copyright owner's distribution rights.

regardless of whether it is made in this country or abroad.[12] That is plainly the case here, as the labels in question were made by L'anza itself. But a lawful copy made by an unrelated entity solely pursuant to a *foreign* copyright, without the express or implicit authorization of the U.S. copyright owner, is arguably not made "under this title" within the meaning of Section 109(a). Accordingly, under that interpretation, the foreign copies, although not "piratical" because they were made pursuant to a valid foreign copyright, would not receive the protection of Section 109(a), whether in an action for unauthorized importation under Section 602(a) or for unauthorized domestic distribution under Section 106 itself. In these circumstances, and unlike the facts of the present case, the imported copies would not have been made as a result of any authority "under this title." Because the U.S copyright owner would not have had an opportunity to receive any "reward" from the making of those copies, the policies of the first sale doctrine would not come into play.[13]

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[12] The Ninth Circuit previously adopted the contrary view that the first sale doctrine does not apply to *any* copies made abroad, regardless of whether they were made by or under the authorization of the U.S. copyright holder. *See BMG Music* v. *Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992); *see also Columbia Broadcasting System, Inc.* v. *Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984). The Ninth Circuit, however, has recognized the widespread criticism of that holding—which would eliminate first sale protection even for copies imported or sold here under the authorization of the U.S. copyright holder—and has limited the holding in *BMG* to its facts. *See Denbicare U.S.A. Inc.* v. *Toys "R" Us, Inc.*, 84 F.3d 1143, 1149-50 (9th Cir.), *cert. denied*, 117 S. Ct. 190 (1996); *Parfums Givenchy*, 38 F.3d at 482 & n.8.

[13] This hypothetical situation—a U.S. copyright holder faced with the importation of competing copies made by an unrelated foreign copyright holder without the express or implicit authorization of the U.S. copyright holder—was the principal example cited by the book and record industry during the informal panel discussions on Section 602. *See 1963-1964 Discussions*, *supra*, at 119 (statement of Mr. Pilpel); *id.* at 209 (statement of Mr. Manges); *id.* at 212 (statement of Mr. Pilpel); *id.* at 260 (statement of American Book Publishers Council, Inc.); *1961-1962 Discussions*, *supra*, at 212 (statement of Mr. Manges); *see also* Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 125-126 (Comm. Print 1961). It is also the "prototypical" gray market situation identified by this Court in *K Mart*. *See* 486 U.S. at 286.

The Court need not opine here on the precise interpretation of the Copyright Act in these hypothetical situations, and there are doubtless numerous other instances where the right to block importation would survive notwithstanding the applicability of the first sale doctrine. For purposes of this case, the Court need only recognize that, just as the first sale doctrine of Section 109(a) does not render the other components of the distribution right under Section 106(3) (the right to prevent unauthorized sales, rentals, and leases) "meaningless" when applied to non-piratical works, so the importation component has significant meaning as well when read together with Section 109(a).

IV. THE POLICIES OF THE COPYRIGHT ACT DO NOT SUPPORT THE DECISION BELOW

The Ninth Circuit predicated its holding on its view that Quality King's interpretation is contrary to the policies of the Copyright Act. According to the court, the first sale doctrine was intended to ensure that the copyright owner receives "full value" for its copies, and once that value has been obtained "the policy goal of protecting the copyright holder gives way to the policies disfavoring limitations on the alienation of property." Pet. App. A11. The court then concluded that because L'anza sold its products in Europe for substantially less than it charged its domestic distributors, "the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels," and that Quality King's attempt to provide consumers with lower domestic prices "is just the evil that Congress sought to prevent in adopting § 602(a)." Pet. App. A14, A15.

In light of the clear statutory language and the supporting legislative history, the Ninth Circuit misconstrued the congressional purpose in enacting § 602, and in any case, such arguments based on the purported policies of the Copyright Act "are better addressed by Congress than the courts." *Stewart* v. *Abend*, 495 U.S. 207, 228 (1990). But regardless, it is the Ninth Circuit's interpretation, not Quality King's, that is at odds with the purposes of the Copyright Act. This Court has stressed that the limited copyright grant is not "primarily designed to provide a special benefit" but rather is "intended to motivate the creative activity of authors * * * by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." *Sony*, 464 U.S. at 429. "'The copyright law, like the patent statutes, makes reward to the owner a secondary consideration.'" *Id.* (quoting *United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948)).

The first sale doctrine embodies these concerns, and represents an "important balancing of interests." H.R. Rep. No. 735, 101st Cong., 2d Sess. 7 (1990). It reserves the copyright owner's valuable right to control the "first public distribution" of his copies, House Report, *supra*, at 62, Senate Report, *supra*, at 112, but also allows full public access to those copies once that limited period of exclusive control has ended through a sale. The copyright owner has the right to realize whatever value it can obtain for its copies. But once those copies have been sold—for whatever price—the owner's distribution right has terminated and it has no further right to control the price at which the copies are resold. That was the precise rationale of this Court's decision in *Bobbs-Merrill*, now codified in Section 109(a). The first sale doctrine embodies the proposition that once the copyright owner has had some opportunity to obtain a reward from the making of its copies, as L'anza did here, creative activity is not significantly furthered by allowing the owner to restrain subsequent alienation of those copies.

The Ninth Circuit's holding is contrary to these policies. According to the Ninth Circuit, Section 602(a) was intended to protect private commercial strategies under which manufacturers attempt to maintain higher resale prices for their goods in this country than abroad, and to prevent the "evil" of lower domestic prices. Thus, while the Copyright Act is designed to "motivate the creative activity of authors" and "makes reward to the copyright owner a secondary consideration," *Sony*, 464 U.S. at 429 (quotation omitted), the Ninth Circuit's interpretation makes reward to the copyright owner the primary consideration of Section 602(a) and does little, if anything, to further motivate the creative activity of authors.

Moreover, even if the first sale doctrine were concerned with protecting a copyright owner's ability to receive "full value" for his copies—a term that appears nowhere in either the statute or the legislative history—L'anza has in fact received the full value it sought for each of its products. The Copyright Act entitles L'anza to no more. *See Sebastian*, 847 F.2d at 1099 ("[T]he language of section 602(a) [does not] intimate that a copyright owner who elects to sell copies abroad should receive 'a more adequate reward' than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.").

The Ninth Circuit's subjective "full value" approach would have severe practical consequences for free trade in copyrighted works. Each importer and subsequent reseller of a copyrighted work would need to search the chain of title and determine if the copyright owner ultimately received what that owner or a court would consider the "full" value for that work. Congress did not intend such an impractical and burdensome result. To the contrary, it is black letter law that courts are not to inquire into the adequacy of consideration. *See, e.g.*, Restatement (Second) of Contracts § 79(b) & cmt. c (1981). That fundamental principle is embodied in the first sale doctrine, which is concerned only with whether a subsequent reseller is the owner of a copy lawfully made, and not with the particular price at which the copy was earlier

sold. *See, e.g.*, *Denbicare*, 84 F.3d at 1151 ("there is no justification for reexamining the adequacy of the 'reward' received by the copyright owner in an alleged first sale where the owner has consented to that sale"); *Independent News Co.* v. *Williams*, 293 F.2d 510, 515-517 (3d Cir. 1961) (first sale doctrine applies to copies sold at salvage price); *Harrison* v. *Maynard, Merrill & Co.*, 61 F. 689 (2d Cir. 1894) (same).

Thus, just as the publisher in *Bobbs-Merrill* could not use the Copyright Act's general right of distribution as a means of furthering its strategy of resale price maintenance, so L'anza should not be able to use Section 602(a) for similar purposes. Once a copyright owner has parted with a copy, the policies of the Copyright Act do not distinguish the protection afforded that copy based on where or at what price it may ultimately be acquired. Indeed, even under L'anza's interpretation, the first sale doctrine would prevent a manufacturer from using copyright law to maintain different resale prices in different areas of the United States.

If upheld, however, the Ninth Circuit's interpretation would create a two-tiered system under which copies that have ever been distributed abroad receive far greater protection than identical copies that never leave the country. Under such an interpretation, once a manufacturer has sold a product containing copyrighted material in this country, the first sale doctrine would allow any subsequent purchaser to resell the product at any price; but if an identical product from the same lot somehow finds its way abroad, the manufacturer would have the right (at least during the term of the copyright) to control the importation and any subsequent distribution of that product. The effects of such a rule would be far-reaching. For example, used book dealers would be prohibited from importing or reselling genuine copies of U.S. copyrighted works acquired abroad, art dealers would be prevented from doing the same with copyrighted art works, and importers would be prevented from shipping products in containers containing copyrighted labels or instructions.

Absent any indication that Congress intended such harsh restrictions on free trade and commerce, this Court should

not impose them as a matter of copyright "policy." As noted above, manufacturers have failed in their attempts to use trademark and customs laws to further domestic price discrimination. The present attempt is even more misguided. Trademark and customs laws, at least, are primarily grounded in economic concerns, while L'anza's re-sale pricing strategy has nothing whatever to do with the Copyright Act's primary goal of motivating creative activity. The creative worth of product labels—in contrast to the worth of the underlying product or its trademark—is speculative at best. *See Higgins* v. *Keuffel*, 140 U.S. 428, 431 (1891) (Copyright law "does not have any reference to labels which simply designate or describe the articles to which they are attached, and which have no value separated from the articles."). To allow L'anza to use those labels to further a private commercial strategy of maintaining inflated prices in this country would subvert the true purposes of the Copyright Act.

Finally, whatever the perceived harms of parallel imports, this case is "considerably less troubling" than the prototypical gray market situation in which a domestic trademark owner must compete with products manufactured abroad by an unrelated entity. *K Mart*, 486 U.S. at 301 (Brennan, J., concurring and dissenting). Here, by contrast, L'anza is "seeking to protect itself from its own competition." *Id.* Because L'anza itself controls the manufacture and first sale of its products, it has "a panoply of options," including private contractual remedies, for controlling its channels of distribution. *Id.* at 302. It cannot, however, use the Copyright Act to implement its market allocation scheme. *Cf. Teleprompter Corp.* v. *Columbia Broadcasting System, Inc.*, 415 U.S 394, 414 n.15 (1974) ("While securing compensation to the holders of copyrights was an essential purpose of [the Copyright] Act, freezing existing economic arrangements for doing so was not."). As Congress made clear, the first sale doctrine "does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer or seller, would be unenforceable between the parties as a breach of contract, *but it does mean that they could not be enforced by an action for infringement*

of copyright." House Report, *supra*, at 79; Senate Report, *supra*, at 72 (emphasis supplied). The Court should enforce that clear intent, as set forth in the statute itself.

CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals should be reversed.

Respectfully submitted,

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In The

Supreme Court of the United States

October Term, 1996

QUALITY KING DISTRIBUTORS, INC., a New York corporation,

Petitioner,

vs.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF FOR RESPONDENT

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BEST AVAILABLE COPY

QUESTION PRESENTED

Is the "first sale" doctrine contained in Section 109(a) a defense to copyright infringement under Section 602(a) for importation, without the authorization of the copyright holder, of copies distributed outside the United States?

CORPORATE DISCLOSURE STATEMENT PURSUANT TO RULE 29.6

Respondent L'anza Research International, Inc., a California corporation, has no parent company or nonwholly-owned subsidiary.

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PERTINENT STATUTES

Respondent L'anza Research International, Inc. ("L'anza") concurs with petitioner Quality King Distributors, Inc. ("Quality King") that the writ of certiorari concerns the provisions of the Copyright Act of 1976, 17 U.S.C. §§ 106, 109(a) and 602(a), quoted in part in the brief for petitioner.

However, L'anza contends that 17 U.S.C. §§ 501 and 603 are also pertinent. Moreover, Quality King has not cited the complete text of § 602. The Copyright Act of 1976, 17 U.S.C. § 602 provides in its entirety:

> (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to —
>
> (1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;
>
> (2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving

from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or

(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies of phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

(b) In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited. In a case where the copies or phonorecords were lawfully made, the United States Customs Service has no authority to prevent their importation unless the provisions of section 601 are applicable. In either case, the Secretary of the Treasury is authorized to prescribe, by regulation, a procedure under which any person claiming an interest in the copyright in a particular work may, upon payment of a specified fee, be entitled to notification by the Customs Service of the importation of articles that

appear to be copies or phonorecords of the work.

The Copyright Act of 1976, 17 U.S.C. § 501(a) provides:

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. For purposes of this chapter (other than section 506), any reference to copyright shall be deemed to include the rights conferred by section 106A(a). As used in this subsection, the term "anyone" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

The Copyright Act of 1976, 17 U.S.C. § 603, as amended in 1996, provides:

(a) The Secretary of the Treasury and the United States Postal Service shall separately or jointly make regulations for the enforcement of the provisions of this title prohibiting importation.

(b) These regulations may require, as a condition, for the exclusion of articles under section 602 —

(1) that the person seeking exclusion obtain a court order enjoining importation of the articles; or

(2) that the person seeking exclusion furnish proof, of a specified nature and in accordance with prescribed procedures, that the copyright in which such person claims an interest is valid and that the importation would violate the prohibition in section 602; the person seeking exclusion may also be required to post a surety bond for any injury that may result if the detention or exclusion of the articles proves to be unjustified.

(c) Articles imported in violation of the importation prohibitions of this title are subject to seizure and forfeiture in the same manner as property imported in violation of the customs revenue laws. Forfeited articles shall be destroyed as directed by the Secretary of the Treasury or the court, as the case may be.

STATEMENT OF THE CASE

This case concerns the ability of a copyright holder to control the United States distribution of its copyrighted product when those products have been distributed abroad and imported into the United States without the copyright holder's permission. The L'anza products at issue were acquired outside of the United States and imported into the United States by Quality King without L'anza's permission and distributed by Quality King. *L'anza Research Intern.*

v. Quality King Distributors, 98 F.3d 1109, 1118 (9th Cir. 1996) (and appendices to petition for writ of certiorari ("Pet. App.") at A17). As a result, L'anza sued Quality King for copyright infringement under 17 U.S.C. § 602(a).

As fully discussed within, the district court granted L'anza's motion for an order specifying issues that exist without substantial controversy on the ground that the "first sale" doctrine of Section 109(a) was not a defense to Quality King's violation of Section 602(a) because the copyrighted products had not both been manufactured and sold in the United States and that L'anza had not received the full value for its copyright since the copyrighted products were sold abroad at an extensive discount with the agreement and expectation that those products would not be imported into the United States to compete with L'anza's copyrighted products sold domestically. The Ninth Circuit affirmed on the ground that the "first sale" doctrine of Section 109(a) is not a defense to copyright infringement under Section 602(a) for an authorized importation of copyrighted goods. As also fully discussed within, the Ninth Circuit's decision was correct because the unambiguous language of the statute establishes that Section 109(a) is not a limitation on the importation right articulated in Section 602(a). Moreover, the legislative history of the Copyright Act reveals that Congress never intended Section 109(a) to act as a defense to copyright infringement for unauthorized importation under Section 602(a).

A. Material Facts.

L'anza formulates and distributes high quality professional hair care products which are sold exclusively through professional beauty salons and colleges and professional barber salons and colleges ("the authorized channels of distribution"). *See* 98 F.3d at 1111 (Pet. App. at A2). L'anza has advertised extensively in the United States market to create and maintain a reputation for selling exclusive high quality products which are only available through the authorized channels of distribution.

L'anza assures that its products are sold by its distributors in the United States solely in their own territories and solely through the authorized channels of distribution by including provisions in its distributorship contracts limiting the distributors' right to distribute to certain identified geographical areas within the United States and only through the authorized channels of distribution. *Id.* L'anza also sells its products abroad through master distributors whose distribution areas are limited to defined geographical areas outside of the United States. *Id.*

L'anza has never authorized any party at any time to import into the United States any of its products that have been sold abroad. *See id.* Moreover, L'anza discounts its sales abroad to its foreign master distributors by 35% to 40% below the level of prices that it charges to its U.S. distributors. *Id.* The discount is a reflection of the fact that L'anza's advertising focuses on the United States, and that through its advertising and promotional activities in the United States, L'anza has already established a high quality distribution network in the United States.

Foreign distributors, on the other hand, have to establish their own channels of distribution and do not generally receive the benefit of L'anza's advertising and promotional activities in the United States. *Id.* Consequently, the prices to these foreign master distributors do not reflect L'anza's advertising activities and pre-established channels of distribution in the United States. *See id.* Therefore, if and when a foreign distributor or someone who has purchased L'anza products from a foreign distributor imports L'anza products into the United States, L'anza is being deprived of its right to obtain the full value of its copyright with regard to sales in the United States.

In February 1994, L'anza discovered that its products were being sold at Vassey Drugs in Carmel, California. *Id.* Since every shipment of L'anza products includes products marked to allow tracing, L'anza was able to determine that the products being sold at Vassey Drugs had been purchased from L'Intertrade, a distributor

in Malta, and imported without L'anza's authorization. *Id.* The L'anza products had been manufactured in the United States and then sold through Planetary Eco, L'anza's distributor in the United Kingdom, to L'Intertrade. *Id.* L'anza had sold the products at a substantial discount with the understanding that they would be distributed in Malta and possibly Libya.[1] *Id.* Instead, L'Intertrade sold the products for importation back into the United States,

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1. In its brief on the merits, Quality King has argued that L'anza produced no documents under which either Planetary Eco or L'Intertrade agreed to such sales restrictions. (Petitioner's Brief ("Pet. Br.," p. 4.) However, Quality King had the burden of proof to establish that the importation of L'anza products was authorized by L'anza; yet, as the Ninth Circuit found, Quality failed to present any evidence to satisfy its burden of proof in this regard. That notwithstanding, as Quality King has acknowledged, L'anza introduced testimony, including the testimony of Planetary Eco, that Planetary Eco and L'Intertrade had agreed to these sales restrictions. Joint Appendix ("J.A."), 106-107. Quality King introduced no evidence — testimonial or documentary — to the contrary. Moreover, L'anza did submit documentary evidence that the distribution of the L'anza products by L'Intertrade was restricted. L'anza submitted a bill of lading for a shipment of L'anza products to L'Intertrade, which stated in part:

> THESE COMMODITIES LICENSED BY THE U.S. FOR ULTIMATE DESTINATION MALTA. DIVERSION CONTRARY TO U.S. LAW PROHIBITED.

II Excerpts of Record ("ER") 65:374-375, ¶2. In addition, L'anza submitted exemplars of distributorship agreements in effect at the time. I ER 52:45-46, ¶4; 206-220. L'anza also produced correspondence from Planetary Eco contemporaneous to the transactions recognizing the limitations on distribution. I ER 52:16. The Planetary Eco representative wrote in part: "[P]lease could you mark all products so that if it turns up in any other location it can be clearly identified and the relationship terminated." *Id.*

L'anza did not designate these documents cited from the excerpts of records to be included in the joint appendix because in reliance upon a fair reading of the petition for writ of certiorari, L'anza did not anticipate that Quality King would make these arguments.

without L'anza's permission, and Quality King purchased in their entirety the three shipments that had been sent to the United Kingdom.[2] *Id.* at 1111-1112 (*Id.* at A2-A3).

B. Procedural History.

L'anza filed a complaint against Quality King and others who were selling L'anza products purchased from Quality King alleging that they had violated 17 U.S.C. § 602(a) by importing products to which L'anza owned the copyright without L'anza's permission.[3] *Id.* Quality King responded, *inter alia*, by asserting the affirmative defense of the "first sale" doctrine of 17 U.S.C. § 109(a).[4] *Id.* The district court granted L'anza's motion for an order specifying issues that exist without substantial controversy on May 4, 1995. *Id.*

In its amended order, the district court recognized that Section 602(a) addresses both "piratical" articles, *i.e.* copies made without authorization of the copyright owner, and lawfully made copies, imported without authorization of the copyright owner. (Pet. App. at B4.) The court reasoned that under Section 602(a), "[ ]Congress intended to protect the domestic copyright holder's right to distribute copies in the United States without having to compete with 'piratical' copies or 'lawfully made' copies imported

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2. In its brief on the merits, Quality King for the first time notes that it was not the actual importer of the L'anza goods acquired abroad. (Pet. Br. at 4-5, n.1 and 14, n.6.) However, Quality King has waived this argument. *See Delta Airlines v. August*, 450 U.S. 346, 362 (1981); United States Supreme Court Rule 14.1(a); *Yee v. Escondido*, 503 U.S. 519, 536-537 (1992).

3. In its brief, Quality King appears to suggest that not all of the subject L'anza products had copyrighted labels. (Pet. Br., p. 5.) However, in its petition for writ of certiorari, Quality King admitted that the validity of L'anza's copyrights are not in dispute. Petition for Writ of Certiorari ("Pet."), p. 3.

4. Defaults were entered as to L'Intertrade and its principal, M. Hanif. IV ER 834 (Docket Nos. 44, 47). L'anza settled with the remaining defendants, other than Quality King, and they were dismissed.

without the copyright holder's authority." (Pet. App. at B8.) As a result, the court held that the first sale defense does not extinguish the copyright holder's right to prohibit unauthorized importation of copies. (Pet. App. at B6.) The court concluded that a contrary holding "would undermine the stated purpose of § 602, which is to provide copyright owners with the right to prevent the unauthorized importation of articles acquired abroad that were initially manufactured under the copyright owner's authority. [Citation omitted.]". *Id.*

In the interim, L'anza had filed a state court action against Quality King for business torts under California law, related to L'anza products wrongfully obtained by Quality King from domestic distributors. The state court action, captioned *L'anza Research International, Inc., a California corporation, Plaintiff v. Quality King, Inc., a New York corporation, et al., Defendants*, Los Angeles County Superior Court Case No. BC089231, proceeded to trial on April 14, 1995. 98 F.3d at n.2 (Pet. App. at A3). On May 18, 1995, the jury in the state court action returned its verdict in favor of L'anza and against Quality King awarding L'anza $480,000 in damages and finding by *clear and convincing evidence* that Quality King had acted with malice or fraud against L'anza. *See id.* The jury also rejected Quality King's affirmative defense that Quality King was the competitor of L'anza and thus that Quality King's conduct was privileged. (Appendices to opposition ("Opp. App.") at 7a.) On May 23, 1995, the jury returned its special verdict awarding L'anza $3.4 million in damages against Quality King. (*Id.* at 9a-10a.) L'anza subsequently was granted a permanent injunction, *inter alia*, as follows:

> IT IS FURTHER ORDERED, ADJUDGED AND DECREED that defendant Quality King Distributors, Inc., its agents, servants, employees, principals, subsidiaries, affiliates, or all those in active concert or participation with it are hereby enjoined and prohibited from purchasing,

> offering to sell, selling or in any way selling or transferring to others any L'anza hair care products that were originally sold by L'anza within the United States.

(*Id.* at 11a.)

On July 25, 1995, the district court also granted L'anza's motion for permanent injunction enjoining Quality King from importing and selling identified copyrighted L'anza's products that had been sold previously outside of the United States. 98 F.3d at 1112 (Pet. App. at A3). The district court entered judgment in the amount of $132,616 in damages in favor of L'anza on September 29, 1995. *Id.*

Quality King appealed, and the Ninth Circuit affirmed. At the outset, it should be noted that on appeal, Quality King argued that the permanent injunction should be vacated. However, Quality King did not seek the vacation based upon the contention that Quality King had never imported L'anza products.

In its decision, the Ninth Circuit reviewed its prior decisions holding that the "first sale" doctrine does not bar an action under Section 602(a) when foreign-manufactured U.S. copyrighted goods have been lawfully sold abroad.[5] *Id.* at 1113. The court noted that this Ninth Circuit rule was that " 'the words "lawfully made under this title" in § 109(a) grant first sale protection only to copies legally made and sold in the United States.' " *Id.* However, the Ninth Circuit declined to rely on this interpretation that grants first sale protection only to copies legally made and sold in the United States. *Id.* at 1114. Instead, the Ninth Circuit elected to rely upon the alternative ground supporting the *BMG* and *Drug Emporium* decisions: If Section 109(a) supersedes the prohibition on importation under

5. The Ninth Circuit cited *Parfums Givenchy v. Drug Emporium*, 38 F.3d 477, 480-481 (9th Cir. 1994), *cert. denied*, 514 U.S. 1004, 115 S. Ct. 1315, 131 L. Ed. 2d 197 (1995); *see also BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206, 112 S. Ct. 2997, 120 L. Ed. 2d 873 (1992).

Section 602(a), then Section 602(a) would be rendered meaningless.[6] *Id.*

In its decision, the Ninth Circuit found that prior to the enactment of the 1976 Copyright Act, the Act had only proscribed the importation of "piratical" copies of a work, *i.e.* copies made without the copyright holder's authorization. 98 F.3d at 1116. The Ninth Circuit further found that the enactment of § 602(a) prohibited the importation of both "piratical" copies and "lawfully made" copies, imported without the copyright holder's authorization. *Id.* The court discerned that the enactment of § 602(a) resulted from the fact that importation of copies from outside the United States was preventing copyright holders from receiving the "full value" for copies sold within the United States. *Id.* The court concluded that the unauthorized importation of the subject goods had prevented L'anza from receiving full value for its copyrighted goods sold in the United States. *Id.* at 1117. Therefore, the court concluded that the first sale defense of §109(a) could not bar liability under § 602(a). *Id.*

On or about March 12, 1997, Quality King paid the judgment and required a satisfaction of judgment. (Opp. App. at 1a-2a.) Quality King's petition was docketed on March 19, 1997.

C. The Practice of Gray Marketing.

As Quality King recognizes, this case involves "gray marketing" activities. Pet. Br. at p. 7. Of course, as a gray marketer, Quality King prefers to refer to its activities as "parallel importation," just as it prefers to refer to itself as a "redistributor."[7]

6. *Parfums Givenchy, v. Drug Emporium, supra*, 38 F.3d at 481; *BMG Music v. Perez, supra*, 952 F.2d at 319.

7. Quality King appears squeamish about the term "gray market" and claims that the term is only used by opponents of the activity. Pet. Br. at p. 7, n.3. However, at least one state legislature had no reluctance in using the term and enacting restrictions on the sale of "gray market" goods by retailers. (Cont'd)

Quality King argues that its "gray market" activities are a boon to consumers because Quality King makes products, such as professional hair care products, available to consumers at lower prices at retail outlets, not within the authorized chain of distribution. *Id.* However, in making this argument, Quality King ignores the deleterious effect of its conduct on both consumers and manufacturers.

First, "gray market" goods are almost never covered by the same warranties available for domestic goods in the United States. *See, e.g., United States v. Eighty-Three Rolex Watches,* 992 F.2d 508, 509 (5th Cir. 1993). In addition, "gray market" goods are often damaged and defaced during the diversion process. *See, e.g., Societe des Produits Nestle S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 642 (1st Cir. 1992). Damage or defacement may prevent a product recall if the batch codes on products have been rendered illegible. Cosmetics, such as hair care products, are also often damaged by improper storage or aging. Further, "gray market" products may not meet United States standards in terms of content. For example, certain states, such as California and New York, have higher statutory standards for certain products, such as the application of

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(Cont'd)

California Civil Code § 1797.8, *et seq*. The statute defines "gray market" goods as follows:

> (a) As used in this chapter, the term "grey market goods" means consumer goods bearing a trademark and normally accompanied by an express written warranty valid in the United States of America which are imported into the United States through channels other than the manufacturer's authorized United States distributor and which are not accompanied by the manufacturer's express written warranty valid in the United States.
>
> . . .

California Civil Code § 1797.8.

volatile organic compound legislation on hair sprays. *See, e.g.*, 17 California Code of Regulations § 94500, *et seq.* These problems can hardly be viewed as a boon to consumers.

"Gray market" activities are also harmful to manufacturers. When a consumer purchases a "gray market" product, the consumer does so based upon the image and reputation of that product. If the "gray market" product does not meet the consumer's expectation, then the consumer holds the manufacturer responsible, and the manufacturer suffers a loss of good will. *See Original Appalachian Artworks, Inc. v. Granada Elects., Inc.*, 815 F.2d 68, 73 (2d Cir. 1987), *cert. denied,* 44 U.S. 847 (1987).

"Gray market" activities are further objectionable because they allow the gray marketer to obtain a "free ride" on the manufacturer's marketing and promotional efforts without compensation. *See, e.g., Osawa & Co. v. B & H Photo,* 589 F. Supp. 1163, 1172 (S.D.N.Y. 1984). As noted, in this case, L'anza sold the subject copyrighted products abroad at a discount of 35% to 40% because L'anza's advertising and promotional activities are directed toward the United States market, not foreign markets, and as a result, a foreign distributor does not benefit from those activities. *See* 98 F.3d at 1111 (Pet. App. at A2). However, because these products were imported from abroad into the United States, those involved in the diversion of the products benefited from L'anza's advertising and promotional activities without L'anza receiving commensurate compensation.

It should be recognized that L'anza, the copyright holder, is a creator and developer of products. Quality King, on the other hand, is an interloper, at most. The rule of law that Quality King proposes would discourage competition. For example, if L'anza cannot enter into agreements to distribute and sell its copyrighted products outside of the United States at lower prices without fear of those products being imported into the United States without L'anza's authorization to compete with L'anza's distribution and price structure for products inside the United

States, then L'anza will be discouraged from entering into and competing in foreign markets. Thus, the rule proposed by Quality King will have a deleterious effect on United States companies that create and develop products. Consequently, the potential impact on L'anza far outweighs the purported predicament facing Quality King. Quality King, of course, is not a copyright holder. Moreover, Quality King is not a creator or developer of products. Rather, Quality King is merely a "middleman" interfering with the authorized and planned distribution of L'anza's products, and other products, as well, and Quality King simply tries to make a "fast buck" or "fast penny" by diverting products and manufacturing an unnecessary link in the chain of distribution.

In addition, it is highly questionable whether "gray market" activities even provide consumers with lower prices. For example, "gray market" hair care products have been found to be as costly, and often more costly, at unauthorized retail outlets as at authorized salons. Maryellen Gordon, "Gray Market Is Giving Hair-Product Makers Gray Hair," New York Times, July 13, 1997. ("A spot check last month of a half dozen products found that some discount stores don't actually offer a discount. By the time the shampoos and conditioners wind up on the discounters' shelves, the products have passed through a few more out-stretched hands. The products can cost up to $6 less in salons.")

Finally, Quality King has attempted to paint a picture of itself as a reputable business organization. However, Quality King's litigation history suggests otherwise. *Warner-Lambert Co. v. Northside Development Corp.*, 86 F.3d 3, 8 (2d Cir. 1996) (enjoining Quality King from selling outdated cough drops); *Charles of the Ritz v. Quality King Distributors, Inc.*, 832 F.2d 1317, 1324 (2d Dist., 1987) (enjoining Quality King from using slogan substantially similar to trademark owner's); *Epocha Distributors, Inc. v. Quality King Distributors, Inc.*, 2 U.S.P.Q. 1805 (E.D.N.Y 1987) (enjoining Quality King from importing trademarked goods); *Med-Sales Assoc., Inc. v. Lebhar-Friedman,*

Inc., 663 F. Supp. 908, 909, 910 (S.D.N.Y. 1987) (noting Quality King's involvement in distribution of counterfeit birth-control pills); *see also* Wall Street Journal, Feb. 9, 1996 (reporting suit by Proctor & Gamble against Quality King for selling counterfeit Head & Shoulders shampoo); National Law Journal, September 10, 1997 (reporting dismissal of Quality King's counterclaim against Proctor & Gamble for trade libel, tortious interference with business relations and unfair competition based upon Proctor & Gamble's advertising warning consumers of counterfeit shampoo). Quality King's course of conduct belies its claim to be a champion for consumers.

SUMMARY OF ARGUMENT

In its brief, Quality King argues that since Section 602(a) states that the unauthorized importation of works acquired outside the United States is infringement of the exclusive right to distribute under Section 106, the limitations on Section 106, such as the "first sale" doctrine of Section 109, must also extend to Section 602(a). However, this argument assumes that the importation right of Section 602(a) is a subset of Section 106. As fully discussed within, the express language of the statutes reveals otherwise.

The distribution rights articulated in Section 106(3) is an affirmative right that grants the copyright owner the sole right to control the distribution of copies, whether lawful or piratical, and to prevent others from distributing copies without the owner's authorization. Congress supplemented the distribution right of Section 106(3) by enacting Section 602(a). The right granted under Section 602(a) is distinct from the right under Section 106(3) standing alone. While the distribution right under Section 106(3) allows a copyright owner to prevent the unauthorized sale or transfer of ownership or possession of a copyrighted work to the public, the importation right under Section 602(a) provides a right of action against unauthorized importation of copies acquired abroad and brought into the

United States regardless of whether those copies are sold to the United States public or possession or control of those copies is ever transferred. If the importation right of Section 602(a) did not provide protection beyond the scope of the distribution right of Section 106(3), there would have been no need for Congress to have enacted Section 602.

In its brief, Quality King has argued that the "first sale" doctrine of Section 109(a) insulates the owner of a lawfully made copy to sell or otherwise dispose of that copy notwithstanding how the copy was acquired. However, the "first sale" doctrine is not a defense to unauthorized acts of importation because the doctrine only authorizes an owner of a lawful copy to sell or otherwise dispose of that copy, not to import copies into the United States. Moreover, the "first sale" doctrine does not confer any affirmative rights. Instead, the doctrine is a limitation on the exclusive distribution right of Section 106(3). Since the copyright owner's right of distribution is not exercised by a sale or distribution of copies outside of the United States, the "first sale" doctrine is not a defense to claims of unauthorized importation. Thus, L'anza's sale of its copyrighted products to its United Kingdom distributor did not constitute an exercise of its distribution rights under Section 106(3). Consequently, L'anza's claim for copyright infringement based upon subsequent authorized importation of those copyrighted products cannot be subject to a defense based upon the "first sale" doctrine.

Furthermore, statutory interpretation establishes that the "first sale" doctrine of Section 109(a) is not a defense to infringement for an authorized importation under Section 602(a). First, Section 602(a) lists exceptions for the importation of a limited number of copies acquired for identified purposes. If the "first sale" doctrine insulated a party from liability for unauthorized importation of legally purchased goods from abroad, then the express exceptions of Section 602(a) would be unnecessary.

In addition, Section 602(a) includes the expressly stated

limitation of Section 108(g)(2). If the limitations of Section 106, i.e. Sections 107 through 120, apply to Section 602(a), then it would have been unnecessary for Congress to include the limitation of Section 108(g)(2) in Section 602(a).

In its brief, Quality King argues that if Congress had intended Section 602 to be distinct from Section 106, then Congress would have expressly stated so, as it did in Section 106A. However, Quality King ignores the fact that the rights articulated in Section 106A(a) extend to original works of visual art, not copies. Quality King also ignores that the author need not be the copyright holder of the work of visual art in order to enforce rights under Section 106A. Section 106, on the other hand, articulates exclusive rights in the copyright holder, not the author. Thus, Congress distinguished Section 106A from Section 106 because the former provided rights to the author, whether the copyright holder or not, while the latter provided rights to the copyright holder. Thus, the express language of the statutes and statutory interpretation support the conclusion that the "first sale" doctrine under Section 109(a) is not a defense to copyright infringement for unauthorized importation under Section 602(a).

Finally, even though the unambiguous language of the Copyright Act establishes that the "first sale" doctrine of Section 109(a) is not a limitation on Section 602(a), a review of legislative history supports that interpretation, as well. The Report of the Senate Committee on the Judiciary ("the Senate Report") and the Report of the House Committee on the Judiciary ("the House Report") state that Section 602(a) articulates "the general rule that unauthorized importation is an infringement merely of the copies or phonorecords 'had been acquired outside the United States. . . .' " Sen. Rep. No. 94-473, 94th Cong., 2d Sess. 152 (1976) ("Senate Report"); H.R. Rep. No. 1476, 94th Cong., 2d Sess. 169-170 (1976) ("House Report"). Moreover, the Committee explained that Section 603 was the means of enforcement of Sections 601 and 602, and compared Section 603 to the existing Section 109. Senate

Report at 152; House Report at 170. The Committees also described a violation of Section 602 as distinct from a violation of Section 106 in their discussion of Section 501. Senate Report at 141; House Report at 158. Furthermore, in their discussion regarding Section 109, the Committees made no reference whatsoever regarding its application to Section 602. Senate Report at 71-73; House Report at 79-81. Nor did the Committees make any reference to Section 109 in their discussion of Section 602. Senate Report at 151-152; House Report at 169-170. Therefore, the policies underlying the Copyright Act, the express language of the statutes, and the legislative history confirm that the "first sale" doctrine of Section 109(a) is not a defense to copyright infringement for unauthorized distribution under Section 602(a).

ARGUMENT

I. UNAUTHORIZED IMPORTATION AND SUBSEQUENT DISTRIBUTION OF GOODS INITIALLY SOLD BY THE COPYRIGHT HOLDER OUTSIDE THE UNITED STATES INFRINGE THE COPYRIGHT HOLDER'S EXCLUSIVE DISTRIBUTION RIGHT.

As Quality King correctly observes in its brief, in the *L'anza* decision, the Ninth Circuit concluded that the "first sale" doctrine of 17 U.S.C. § 109(a) did not extend to copyright infringement under 17 U.S.C. § 602(a). Thus, in its brief, Quality King characterizes the issue of whether Section 602(a) is limited by the "first sale" doctrine of Section 109(a) as the "principle question in this case. . . ." (Pet. Br., p. 13.) In fact, *this question is the only question* in this case. As fully discussed within, the Ninth Circuit's conclusion is correct and its interpretation of Sections 106(3), 602(a) and 109(a) is accurate. Consequently, the judgment in the Court of Appeals should be affirmed.

A. Statutory Interpretation Establishes That the "First Sale" Doctrine of Section 109(a) Is Not a Defense to Copyright Infringement under Section 602(a) for Unauthorized Importation.

In arguing that the Ninth Circuit's conclusion is in error, Quality King places great emphasis on the fact that Section 602(a) states that the unauthorized importation of works acquired outside the United States "is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501." 17 U.S.C. § 602(a). (*See, e.g.*, Pet. Br. at pp. 13 and 15.) Quality King reasons that if Congress had not intended to make the "first sale" doctrine a limitation on the importation right, Congress would not have identified the importation right as a subset of the distribution right. However, the express language of the statutes reveals otherwise.

Section 602(a) provides:

> § 602. *Infringing importation of copies or phonorecords.*
>
> (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to —
>
> (1) importation, of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies

of any audiovisual work imported for purposes other than archival use;

(2) importation of the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or

(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

Thus, Section 602(a) lists exceptions for the importation of a limited number of copies acquired for personal, scholarly, religious or governmental purposes. As a result, if the "first sale" doctrine shields a party from liability for importing goods legally purchased overseas, then the express exceptions in Section 602(a) for a limited number of copies for personal, scholarly, religious or governmental purposes serves no end. Consequently, if Section 602(a), were construed such that the "first sale" defense superseded Section 602, such a construction would violate the fundamental rule that a statute should be interpreted so as to avoid making any part of it superfluous. *Kungys v. United States*, 45 U.S. 759, 778 (1988); *see*

generally Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc., 832 F. Supp. 1378, 1388 (C.D. Cal. 1993).

In arguing in its brief that Section 602(a) does not confer upon a copyright owner a right not subject to the "first sale" doctrine of Section 109(a), Quality King cites to Section 106A. (Pet. Br. at p. 16.) Quality King then argues that when Congress intends to create a right separate and independent of the rights under Section 106, it does so expressly, as done in Section 106A. (*Id.*) Quality King notes that Congress expressly stated that "the rights under Section 106A were [s]ubject to Section 107 and independent of the exclusive rights provided in Section 106. . . ." 17 U.S.C. § 106A(a). (Pet. Br. at p. 16.) Quality King further notes that the transfer of ownership of the work protected under Section 106A does not constitute a waiver of the statutory right. 17 U.S.C. § 106A(e)(2). (*Id.*) Thus, Quality King apparently argues that the rights under Section 106A are not limited by the "first sale" doctrine of Section 109(a). However, Quality King ignores that Section 106A is part of the same chapter of the statute as Section 106. Section 602 is not part of the same chapter as Section 106. As a result, Congress expressly stated that the rights under Section 106A were distinct from those under Section 106 because of the proximity of the two statutes.

Moreover, Quality King ignores that Section 106A provides rights to original works of visual art, not copies of those works. The statute provides:

(c) Exceptions.

. . .

(3) The rights described in paragraphs (1) and (2) of subsection (a) shall not apply to any reproduction, depiction, portrayal, or other use of a work in, upon, or in any connection with any item described in subparagraph (A) or (B) of the definition

> of "work of visual art" in section 101, and any such reproduction, depiction, portrayal, or other use of a work is not a destruction, distortion, mutilation, or other modification described in paragraph (3) of subsection (a).

17 U.S.C. § 106A(c)(3). Thus, the rights articulated in Section 106A(a) do not extend to copies of a work of visual art, but only to the original work.

Moreover, under Section 106A the author need not be the copyright holder of the work of visual art in order to avail himself or herself of the rights under the statute. Section 106A further provides, in part:

> **(e) Transfer and waiver.**
>
> . . .
>
> **(2)** Ownership of the rights conferred by subsection (a) with respect to a work of visual art is distinct from ownership of any copy of that work, or of a copyright or any exclusive right under a copyright in that work. . . .

17 U.S.C. § 106A(e)(2). On the other hand, Section 106 articulates exclusive rights in the copyright holder not the author. Section 106 states, in part:

> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: . . .

17 U.S.C. § 106. Thus, the reason that Congress in Section 106A expressly stated that those rights were independent of Section 106 is simply because the rights in Section 106 are those of the copyright holder while the rights in Section 106A are those of the author, whether the copyright holder or not. Therefore, Section 106A provides no support for Quality King's argument.

Quality King has also argued that Section 602(a) is limited by the "first sale" doctrine of Section 109(a) because Section 602(a) identifies unauthorized importation as an infringement of the exclusive right to distribute under Section 106 subject to the limitations of Sections 107 through 120, including the "first sale" doctrine of Section 109(a). However, if Quality King's reasoning were sound, then the limitation of Section 108 would apply to Section 602(a) without any express reference in the statute in that regard. Yet, as noted, Section 602(a) expressly provides that subdivision (a)(3) is limited by Section 108(g)(2).[8]

That Congress expressly stated the limitation of Section 108(g)(2) in Section 602(a) shows that the limitations to Section 106, *i.e.*, Sections 107 through 120, do not apply to Section 602(a). Thus, if Congress intended the "first sale" doctrine of Section 109(a) to apply to Section 602(a), it would have expressly stated so in the statute, as it did with respect to the limitation of

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8. Subparagraph (g)(2) of Section 108 provides:

> (g) The rights of reproduction and distribution under this section extend to the isolated and unrelated reproduction or distribution of a single copy or phonorecord of the same material on separate occasions, but do not extend to cases where the library or archives, or its employee
>
> . . .
>
> (2) engages in the systematic reproduction or distribution of single or multiple copies or phonorecords of material descried in subsection (d): *Provided*, That nothing in this clause prevents a library or archives from participating in interlibrary arrangements that do not have, as their purpose or effect, that the library or archives receiving such copies or phonorecords or distribution does so in such aggregate quantities as to substitute for a subscription to or purchase of such work.

Section 108(g)(2). For this reason as well, the "first sale" doctrine of Section 109(a) is not a defense to a vile to infringement under Section 602(a).

In addition, Quality King has contended that the Ninth Circuit was wrong in finding that Section 602(a) was not subject to Section 109(a) because otherwise the other limitations contained in Sections 107 through 120 would also not apply to Section 602(a). Quality King argues, for example, that the "fair use" doctrine of Section 107 would not apply to Section 602(a), if the Ninth Circuit's conclusion were correct. Section 107 provides, in part:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. . . .

17 U.S.C. § 107. Quality King claims that if the "fair use" doctrine of Section 107 did not apply to Section 602(a), the effect would be "draconian."[9] (Pet. Br. at p. 17.) In fact, the "fair use" doctrine of Section 107 does not apply to Section 602(a) for a very simple reason, and the result is hardly draconian. As discussed above, Section 602(a) expressly articulates its own exceptions. 17 U.S.C. § 602(a)(1)-(3). These exceptions are "fair use" limitations on Section 602(a). Thus, Section 602(a) contains its own "fair use" doctrine.

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9. Quality King appears to infer that the Ninth Circuit's interpretation of Section 602(a) violates the First Amendment. Pet. Br. at p. 17. In *Hearst Corp. v. Stark*, 639 F. Supp. 970, 978 (N.D. Cal. 1986), the court held that Section 602(a) does not violate the First Amendment.

As noted, Section 602(a) contains its own express exception for scholarly and educational purposes. 17 U.S.C. § 602(a)(3). Thus, if the "fair use" doctrine of Section 107 applied to Section 602(a), then the section articulated in subparagraph (a)(3) would be unnecessary. As also noted, a fundamental rule of statutory interpretation is to avoid an interpretation making it a part of that statute superfluous. *Kungys v. United States, supra*, 45 U.S. at 778.

Commentators have concurred with this interpretation. In 2 Goldstein, Copyright, § 5.6.1.2 (2d ed. 1996), the author discusses limits on the first sale doctrine as applied to imported goods:

> Section 602(a) makes the unauthorized importation into the United States of copies or phonorecords acquired outside the United States an infringement of section 106(3)'s distribution right. [Footnote omitted.] Does this mean that section 109(a)'s first sale exemption to section 106(3)'s distribution right is available to importers who acquired ownership of gray market copies or phonorecords lawfully made abroad? Courts have generally answered that the first sale defense is not available in these circumstances. [Footnote omitted.] To allow the first sale defense in these circumstances violates the shared principle of sections 106(3) and 109(a) that a copyright owner should, on first sale, be entitled to realize the full value of each copy or phonorecord produced with its authority, since competition with lower priced imports would inevitably prevent the United States copyright owner from realizing the full value of the copies and phonorecords that it sells. Further, to introduce a first sale defense into

> section 602(a) would obviate that subsection's exemptions for the importation of limited numbers of copies acquired for personal, scholarly or religious purposes, [footnote omitted] since these copies will often be lawfully made gray market goods purchased through normal market channels abroad.

2 Goldstein, Copyright, § 5.6.1.2 "Limits on the First Sale Exemption," pp. 5:115-5:116 (2d ed. 1996).

Quality King concludes that the court need look no further than the plain language of the statute to reach a decision in this case. (Pet. Br. at p. 17.) On this point, L'anza agrees. The plain language of the Copyright Act establishes that the "first sale" doctrine of Section 109(a) is not a defense to a violation of Section 602(a).

B. L'anza's Distribution of Copyrighted Goods Outside the United States Did Not Exhaust Its Exclusive United States Distribution Right under Section 106(3) with Respect to Those Goods.

Section 602(a) states that an unauthorized importation is an infringement of a copyright owner's exclusive distribution right under Section 106. Petitioner's principal argument before this Court is that once L'anza distributed its copyrighted goods, its Section 106(3) distribution right with respect to those goods was exhausted under the first sale doctrine. Thus, petitioner argues, L'anza cannot maintain a claim under Section 602 because there subsists no Section 106(3) distribution right to be infringed by virtue of unauthorized importation or subsequent sale of those goods. Petitioner furthermore maintains that because no Section 106(3) right subsists, L'anza cannot prevent subsequent sale of copyrighted goods imported without authorization.

Petitioner's argument fails to recognize the territorial limits of exclusive rights under the United States Copyright Act. A distribution of copyrighted goods outside the United States is not an exercise of the Section 106(3) right, but rather an exercise of rights conferred by foreign copyright law. *See generally Equal Employment Opportunity Commission v. Arabian American Oil Company*, 499 U.S. 244, 248 (1991) ("We assume that Congress legislates against the backdrop of the presumption against extraterritoriality."); *Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095-1098 (9th Cir. 1994) (holding that Copyright Act has no application to extraterritorial acts).

Petitioner concedes that L'anza distributed the goods in question outside the United States. *See, e.g.*, Pet. Br. at 4 ("L'anza shipped the goods from the United States for delivery to L. Intertrade in Malta, . . . [understanding] that they would be distributed in Malta and 'possibly Libya.' "); Pet. Br. at 15 ("L'anza sold the products to its United Kingdom distributor"). Because a distribution of copyrighted works outside the United States is not an exercise of the Section 106(3) United States distribution right, the Section 106(3) right and Section 602(a) right cannot be extinguished by L'anza's distribution outside the United States.

Thus, although L'anza's distribution of copyrighted goods in the United Kingdom or Malta may implicate rights under United Kingdom or Maltese copyright law, it does not implicate exclusive rights under the United States Copyright Act. L'anza's United States distribution right therefore subsists with respect to the goods distributed abroad, such that L'anza may bar importation and subsequent sale of such goods as an infringement of its Section 106(3) right. *See generally* Br. of *Amici Curiae* Recording Industry Association of America *et al.* In Support of Respondent, Argument IIB.

II. THE LEGISLATIVE HISTORY COMPELS THE CONCLUSION THAT THE "FIRST SALE" DOCTRINE OF SECTION 109(a) IS NO DEFENSE TO INFRINGEMENT FOR UNAUTHORIZED IMPORTATION UNDER SECTION 602(a).

In its brief, Quality King acknowledges that when statutory language is ambiguous, no reason exists for the court to consider the legislative history of the statute. On this point, L'anza also agrees. As fully discussed above, the statutory language unequivocally establishes that the "first sale" doctrine of Section 109(a) is not a defense to a violation of Section 602(a). That notwithstanding, assuming *arguendo* that the court finds the statutory language ambiguous, a review of the legislative history reveals that the Ninth Circuit decision is correct and L'anza's interpretation is accurate.

In its brief, Quality King has acknowledged that the Ninth Circuit was correct in observing that the interaction between Section 109 and Section 602(a) does not expressly address the legislative history of the Copyright Act of 1976. 98 F.3d 1116. (Pet. App. at p. 12.) However, the *L'anza* court found evidence in the legislative history of the act to support the conclusion that Section 109(a) was not intended to limit the scope of Section 602(a). *Id.*

At the outset, it is important to remember that "as the term 'copyright' suggests, it is the act of copying which is essential to, and constitutes the very essence of all copyright infringement." 2 Nimmer on Copyright § 8.202[A] (1986). Importation itself can be the equivalent of the act of copying since importation increases the number of copies of a work available in this country. The copyright owners' right to control the number of copies of work in this country can be violated as much by the unauthorized importation of works acquired outside the United States as by mass copying in the United States. Thus, the importation right insures the copyright owner control of the number of copyrighted products

in the market by preventing the saturation of the market with unauthorized imports just as the copyright owner has the right to prevent the making of unauthorized copies to prevent a similar saturation.

The *L'anza* court found the situation to be an important problem and that Congress had intended to prevent or protect against this problem by enacting Section 602(a). At pages 1116 and 1117, the court reasoned:

> The *C & C* court explained this point as follows:
>
> > [The] "full value" — the price at which the copyright owner is willing to sell copies of his work — depends on market conditions and, in today's global economy, varies from country to country. For example, the owner of a copyright in a sound recording may demand $10 each to sell 1 million phonorecords of that sound recording in the United States, but may be willing to sell another 1 million phonorecords for $7 each in Australia in order to enter the market there or for some other legitimate business purpose. If the phonorecords originally sold for $7 in Australia are allowed to enter the United States, where they may then be sold again for, say, $8, the United States copyright owner is forced to compete with that price, and thus is prevented from receiving the $10 to which he is entitled for each of the phonorecords initially released into the United States market.

C & C, 832 F.Supp. at 1390-91. Thus, the *C & C* court concluded,

> [a]pplying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate [the principle that the copyright owner is entitled to realize the full value of each copy or phonorecord upon its disposition] and defeat Congress' intent, in enacting Section 602(a), to expand importation protection for copyright owners so as to avoid circumvention of the distribution right.

Id. at 1391.

Although *C & C* addressed the importation of copies manufactured outside of the United States, its logic is equally applicable to the scenario at issue here, where the copyright owner sold U.S. manufactured goods at a substantial discount, with the intent that they would be sold exclusively outside of the United States (Quality King concedes that the goods were to be sold outside of the United States). Just as in the example offered by *C & C*, the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels, notwithstanding the fact that the imported products were manufactured in the United States and sold by L'anza. As a result, it would contradict the congressional intent underlying §§ 106(3), 109(a) and 602(a) if we were to hold

> that § 109(a) barred liability under § 602(a) in this case.

In its brief, Quality King has demeaned the legislative history cited by the Ninth Circuit in the *L'anza* decision. (Pet. Br. at pp. 21-22.) However, there is legislative history not cited by the Ninth Circuit in the *L'anza* decision that also supports the Ninth Circuit's interpretation.

The legislative history with respect to Section 501 supports the interpretation that the rights under Section 602 are separate and distinct from those under Section 106. The Senate Committee on the Judiciary and the House Committee on the Judiciary noted:

> The bill, unlike the present law, contains a general statement of what constitutes infringement of copyright. Section 501(a) identifies a copyright infringer as someone who "violates any of the exclusive rights of the copyright owner as provided by sections 106 through 188" of the bill, or who imports copies or phonorecords in violation of section 602. Under the latter section an unauthorized importation of copies or phonorecords acquired abroad is an infringement of the exclusive right of distribution under certain circumstances.

Senate Report at 141; House Report at 158.[10]

The legislative history of Section 602 also supports the interpretation that the "first sale" doctrine is not a defense to a violation of that section. The Report of the Senate Committee on

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10. The Senate Report and the House Report do not include the caveat noted by Quality King with respect to the legislative history cited by the Ninth Circuit in *L'anza*, to wit, no approval or disapproval was given as to the expressed views. Pet. Br. at 21, n.8.

the Judiciary and the Report of the House Committee on the Judiciary states:

> Section 602(a) first states the general rule that unauthorized importation is an infringement merely if the copies or phonorecords "have been acquired outside the United States", but then enumerates three specific exceptions: . . . .
>
> If none of the three exemptions applies, any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them, even before any public distribution in this country has taken place.

Senate Report at 152; House Report at 169-170.

In its brief, Quality King has cited later language from the House and Senate Committee Reports, and by selectively emphasizing certain portions of that language, Quality King has argued that the reports reflect a different interpretation of Section 602. (Pet. Br. at pp. 18-19.) However, no manipulation of emphasis can alter the unambiguous meaning of the language quoted above.

Moreover, the Senate Committee on the Judiciary and the House Committee on the Judiciary viewed Section 603 as the counterpart of Section 109 vis-à-vis Sections 601 and 602. The Committees explained:

> The importation prohibitions of both sections 601 and 602 would be enforced under section 603, which is similar to section 109 of the statute now in effect.

Senate Report at 152; House Report at 170. If the "first sale" doctrine of Section 109 applied to Section 602, then Section 603 would be unnecessary.

Finally, a review of the reports from the Senate and House Committees on the Judiciary regarding Section 109 reveals that no reference whatsoever is made with respect to its application to Section 602. Senate Report at 71-73; House Report at 79-81. By the same token, in the part of the report regarding Section 602, no reference whatsoever is made to Section 109, much less that Section 109 applies to Section 602. Senate Report at 151-152; House Report at 169-170.

As noted, Quality King denigrates much, if not all, of the legislative history cited by the *L'anza* court in support of its decision. *See, e.g.*, Pet. Br. at p. 21. Nonetheless, Quality King proceeds to rely on similar legislative histories to support its position.[11] *Id.* at pp. 22-23. In this regard, Quality King refers to a 1964 panel discussion at which a publishing industry representative questioned whether certain scenarios would constitute infringement under proposed Section 602. These scenarios were as follows: "some American importer buys [a book] from a German jobber, who legitimately bought copies from the German publisher who had the authority to make and sell them," and the "American importer then sells them to a retail bookseller, and the retail bookseller sells one of these copies." Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law* 210 (Comm. Print 1964). (Pet. Br. at p. 22.) Quality King contends that the general counsel of the copyright office, which had prepared the preliminary drafts of the 1976 Act, responded that the answer depended on "whether the distribution that would

---

11. Indeed, the material includes the caveat that Quality King has cited to demean the legislative history cited by the *L'anza* court:

> In issuing this material the committee neither approves nor disapproves any of the views expressed therein. The material is issued for the information and convenience of persons interested in U.S. copyright law revision.

take place in the United States would itself constitute an infringement of copyright." *Id.*

Quality King then argues that the general counsel repeated this interpretation during the entire discussion. *Id.* However, this recitation is not accurate. In fact, what Quality King characterizes as one scenario was, in fact, two scenarios. As to the first scenario, the general counsel of the copyright office replied that anyone who imported into the United States without authority had infringed and the importer would be an infringer. *Id.* at page 210, the exchange reads as follows:

> KARP. I may be repeating, since unfortunately I had to leave before this section was opened for discussion. I only wanted to ask two questions.
>
> Under either Alternatives A or B, importation of copies that were legally made in the first place becomes infringement if the copies are imported without the authority of the owner of the exclusive right to distribute copies. How far down the line of distribution will this extend? If a bookseller buys copies from a jobber who legally bought them from a German publisher, would he be guilty of infringement?
>
> In other words, some American importer buys from a German jobber, who legitimately bought copies from the German publisher, who had the authority to make and sell them. Then he sells them into the United States, and the American importer then sells them to a retail bookseller, and the retail bookseller sells one of these copies. Would that be an infringement under this section?

> GOLDMAN. I should think the result of this section would be that anybody who imports without authority into the United States for the purposes of distribution to the public would be an infringer.

Finally, Quality King has cited the statement of Robert T. Jordan of the Council on Library Resources. For the proposition that Congress was aware of the view based upon the "first sale" doctrine, no geographical restriction should be placed on a purchaser's resale of a lawfully purchased copyrighted article. (Pet. Br. at p. 22 n.9.) At the outset, it should be noted that Mr. Jordan was careful to emphasize that he was not speaking as a representative of any particular organization. *Copyright Law Revision, Part I: Hearings Before the Sub Comm. No. 3 of the House Comm. on the Judiciary*, 89th Cong. 1st Sess. 464 (1965). More importantly, Mr. Jordan did not refer to Section 109 in the comments quoted by Quality King; instead, he only referred to Section 108. *Id.* at 468. Most importantly, Mr. Jordan's statement reflects an awareness that the limitations under Section 106 were not intended to extend to Section 602. As a result, Mr. Jordan expressed criticism of Section 602.

Consequently, notwithstanding Quality King's argument to the contrary, the Copyright Act itself, as well as its legislative history, strongly supports the interpretation that the first sale doctrine under Section 109(a) has no application to a violation of Section 602(a). Therefore, the Ninth Circuit's holding in the *L'anza* decision was correct, and the decision should be affirmed.

CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals should be affirmed.

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In the Supreme Court of the United States

OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC., PETITIONER

v.

L'ANZA RESEARCH INTERNATIONAL, INC.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING RESPONDENT

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QUESTION PRESENTED

The Copyright Act of 1976, 17 U.S.C. 101 *et seq.*, accords the owner of a copyright "the exclusive right[] * * * to distribute copies or phonorecords of the copyrighted work to the public." 17 U.S.C. 106(3). Under the first sale doctrine, however, the owner of a particular, lawfully made copy of a copyrighted work may, without the consent of the copyright owner, "sell or otherwise dispose of the possession of that copy." 17 U.S.C. 109(a). A separate section of the Copyright Act provides that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106." 17 U.S.C. 602(a). The question presented is:

Whether, when a copyright owner has sold copies of its copyrighted work abroad but has not authorized their importation into the United States, the first sale doctrine precludes the copyright owner from suing for copyright infringement, under Section 602(a), a subsequent purchaser who imports those copies into the United States.

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ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE SUPPORTING RESPONDENT

INTEREST OF THE UNITED STATES

This case presents the question whether a copyright owner can prevent the importation into the United States of copies of a work that it has sold abroad, but that it has not authorized for importation. The case turns upon the interpretation of three separate provisions of the Copyright Act of 1976, 17 U.S.C. 101 *et seq.* The United States has an interest in the resolution of this question for several reasons. First, the United States Copyright Office, which administers the Copyright Act, 17 U.S.C. 701, and which contributed significantly to Congress's drafting of the relevant provisions, has an interest in ensuring the Act's proper construction. Second, the

Court's resolution of the statutory question presented could have a substantial impact on the federal government's foreign trade and copyright relations. In international trade agreements and negotiations, the United States has repeatedly endorsed the right of copyright owners to control the terms and conditions for importation and distribution of copies of their works in their own countries. Third, the federal government has primary responsibility for enforcing the antitrust laws, which establish a national policy favoring economic competition as a means to advance the public interest.

STATEMENT

1. The Constitution vests in Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. Art. I, § 8, Cl. 8. Pursuant to that authority, Congress substantially revised United States copyright law through enactment of the Copyright Act of 1976, 17 U.S.C. 101 *et seq.*

The present case arises at the intersection of three provisions of the Copyright Act.[1] The first, 17 U.S.C. 106(3), provides that "the owner of copyright under this title has the exclusive right[] * * * to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending."

The second provision, 17 U.S.C. 109(a), expressly limits Section 106(3), by providing that the owner of a lawfully made copy may "sell or otherwise dispose of

[1] The relevant provisions are reproduced at Pet. App. E1-E3.

the possession of that copy" without the copyright owner's authorization. Section 109(a) is often referred to as the "first sale doctrine," because it is generally viewed as providing that the copyright owner's sale of a copy of his work terminates his right to control distribution of that copy. See also *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908).

The last provision, 17 U.S.C. 602(a), states that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501." Section 501, in turn, provides that "[a]nyone who violates any of the exclusive rights of the copyright owner as provided in sections 106 through 118 * * *, or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright," 17 U.S.C. 501(a), and may be subject to a civil action by the copyright owner, 17 U.S.C. 502-505.[2]

2. Respondent manufactures and distributes in the United States a variety of hair care products. Pet. App. A2, B2. Respondent has copyrighted the label that is affixed to those products. *Id.* at A3. As part of its marketing strategy, respondent requires its domestic distributors to sell its products exclusively to authorized vendors, such as beauty salons and colleges. *Id.* at A2. Respondent also sells to foreign distributors, who may sell the products only within defined geographical areas. *Ibid.* Respondent offers

[2] In addition, the Copyright Act criminalizes willful copyright infringement undertaken "for purposes of commercial advantage or private financial gain." 17 U.S.C. 506(a).

its products to overseas distributors at a reduced price, because they "do not receive the benefit of [respondent's] extensive advertising and promotional activities conducted in the United States but rather, must market the products themselves." *Ibid.*

Respondent sold the products in question here at a discounted price through its distributor in the United Kingdom to a foreign purchaser, L. Intertrade. Pet. App. A2. The sale occurred outside the United States. *Id.* at B6. Respondent made the sale with the understanding that its products and the label they bear would be distributed only in Malta and perhaps Libya. *Id.* at A2. L. Intertrade, however, sold the products to petitioner, which imported them into the United States without respondent's permission and subsequently sold them to several domestic buyers for retail distribution. *Id.* at A3.

3. a. Respondent sued petitioner and its customers, alleging that the importation and subsequent distribution of the hair care products bearing the copyrighted label, without respondent's authorization, constituted copyright infringement under Sections 106(3) and 602(a), contributory copyright infringement, and conspiracy. Pet. App. A3; J.A. 32-33.[3] Petitioner asserted as an affirmative defense the first sale doctrine of Section 109(a). J.A. 44. Respondent moved for summary judgment on the question whether the first sale doctrine barred this action. Pet. App. A4.

The district court granted summary judgment, holding that Section 109(a) does not bar liability if the first sale occurs outside the United States.

[3] The complaint also asserted intentional interference with contract, intentional interference with prospective economic advantage, and unfair competition claims under California law. J.A. 33-37. None of those claims is at issue at this stage.

Pet. App. B6-B7. The district court permanently enjoined petitioner from "importing" and "selling" respondent's labeled products if they were obtained overseas, and awarded a stipulated amount of damages. J.A. 113-114.

b. The court of appeals affirmed, holding that the first sale doctrine does not limit the copyright owner's importation right under Section 602(a). Pet. App. A1-A23. Unauthorized imports, the court explained, "cause copyright owners to lose control over domestic distribution, thus driving prices down for goods sold *through authorized channels in the U.S. market*." *Id.* at A15. The court further concluded that Congress's expansion of Section 602(a) in the 1976 Copyright Act "would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation." *Id.* at A9. The court of appeals acknowledged that its decision was inconsistent with the Third Circuit's ruling in *Sebastian International, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (1988). Pet. App. A14.

SUMMARY OF ARGUMENT

This Court need look no further than the literal terms of the Copyright Act to resolve the question of statutory construction presented in this case. First, Section 109(a)'s first sale doctrine only restricts the copyright owner's ability to prevent the copy owner from "sell[ing] or otherwise dispos[ing]" of the copy. Importation is neither a sale nor a disposal of a copy; it is a distinct activity left unaffected by the first sale doctrine. Indeed, the exceptions that the importation provision identifies pertain to copies that are imported for purposes other than their further sale or distribution. Second, the language and structure of the Copyright Act distinguish the copyright owner's

importation right from the general distribution right that is subject to the first sale doctrine. Finally, other intellectual property legislation reveals that, when Congress intends an importation right to be affected by a first sale, it says so in express terms.

The legislative history confirms that a first sale abroad does not vitiate a copyright owner's right to prevent importation of that copy to the United States. Before 1976, the Copyright Act banned the importation only of pirated versions of a copyrighted work. The 1976 Copyright Act expanded the importation provision to make the unauthorized importation of legitimate copies an infringement as well. That expansion reflected a direct legislative response to strongly voiced industry concerns over the problem of parallel imports. While the historical discussion of the interrelationship between Sections 109(a) and 602(a) is limited, the relevant commentary supports recognition of an importation right that is unaffected by the first sale doctrine. Petitioner's proposed interpretation, by contrast, would empty of practical significance Section 602(a)'s expansion to legitimately made copies.

Furthermore, the United States has repeatedly advanced in international trade negotiations the position that the domestic copyright owner's right to prevent parallel imports is not diminished by a first sale abroad, and has strongly encouraged other nations to adopt similar protections. Adoption of petitioner's proposed construction of the Copyright Act would be inconsistent with a number of international trade agreements concluded by the United States and would directly undercut the United States' negotiating position regarding the terms of other proposed intellectual property agreements, because it would be

contrary to representations made by the United States to foreign governments.

Finally, the alternative interpretations of Sections 109(a) and 602(a) adopted by other courts lack any grounding in the language or legislative history of the Copyright Act.

ARGUMENT

A COPYRIGHT OWNER'S RIGHT TO PREVENT INFRINGEMENT THROUGH THE UNAUTHORIZED IMPORTATION OF COPIES OF ITS WORK IS NOT AFFECTED BY THE FIRST SALE OF THOSE COPIES ABROAD

A. The First Sale Doctrine Of Section 109(a) Does Not Extend To Importation

The first sale doctrine does not divest the copyright owner of its right to prevent unauthorized importations.[4] Petitioner's argument (Pet. Br. 12-16) proceeds from the assumption that a first sale abroad completely exhausts a copyright owner's distribution right. Nothing in Section 109(a)'s text, however, suggests that the limitation on rights effected by a first sale is coextensive with the entire distribution right defined by Section 106(3). To the contrary, Section 109(a) allows the owner of a copy only "to sell or otherwise dispose of the possession of that copy" without the authority of the copyright owner. Because the "mere act of importation" (H.R. Rep. No.

[4] At the outset, we note that, although the facts of this case reflect a peculiar type of copyrighted work superficially resembling a trademark, petitioner's argument would have broad and adverse ramifications for more traditional works protected by copyright (such as books, movies, computer programs, and sound recordings). Cf. *Mazer* v. *Stein*, 347 U.S. 201, 217 (1954).

1476, 94th Cong., 2d Sess. 170 (1976); S. Rep. No. 473, 94th Cong., 1st Sess. 152 (1975)) regulated by Section 602(a) does not entail a sale or disposal of possession by the owner of a copy, the first sale doctrine offers petitioner no safe harbor.

1. *Plain language*

By their ordinary understanding, the terms "importation" and "sell" or "dispose of" are not coextensive. See *Brotherhood of Locomotive Engineers* v. *Atchison, Topeka & Santa Fe R.R.*, 116 S. Ct. 595, 597 (1996) (task of statutory construction "begin[s] with the text and design of the statute"). "Importation" means "[t]he act of importing or bringing in * * * goods or merchandise from a foreign country." VII *The Oxford English Dictionary* 728 (2d ed. 1989); see also *The American Heritage Dictionary of the English Language* 661 (1980). While the purpose of importation may often be for trade or sale, the act of importing is not itself a sale nor does it dispose of possession of the item imported. *Id.* at 381, 1177 (defining "dispose of" as "[t]o transfer or part with, as by giving or selling"; defining "sell" as "[t]o exchange or deliver for money or its equivalent, as goods, services, or property; dispose of for a price").[5] Rather, the sale or disposition are subsequent and separate commercial transactions.

The exceptions that Section 602(a) carves out, moreover, each involve acts of importation unrelated to a sale or disposal of possession. Section 602(a)

[5] See also XIV *Oxford English Dictionary*, *supra*, at 934-935 (defining "sell"); IV *Oxford English Dictionary*, *supra*, at 820 (defining "dispose").

excepts from the copyright owner's control importations by the state or federal government "for the use of the Government" (17 U.S.C. 602(a)(1)); importations for "private use" (17 U.S.C. 602(a)(2)); and importations by "organization[s] operated for scholarly, educational, or religious purposes and not for private gain" (17 U.S.C. 602(a)(3)). Congress thus was aware that importation constitutes an activity distinct from sales and other disposals of goods.

Furthermore, if Congress had intended the first sale doctrine to apply to sales abroad, the listing of the three exceptions would have been unnecessary because a first sale will have occurred almost any time one of the excepted activities is undertaken. Congress should not be presumed to have enacted the exceptions as superfluous or redundant words. *Bailey* v. *United States*, 116 S. Ct. 501, 507 (1995). In any event, had Congress intended the copyright owner's importation right not to apply to copies acquired abroad and then imported into the United States, Congress would likely have provided such a fourth exception to Section 602(a). See *United States* v. *Smith*, 499 U.S. 160, 167 (1991) ("Where Congress expressly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied, in the absence of evidence of a contrary legislative intent.").

Finally, when, in the intellectual property arena, Congress intended for a first sale to diminish the importation right as well as the distribution right, Congress expressly and deliberately included the term "import" in the first sale provision. See 17 U.S.C. 906(b) (owner of a particular semiconductor chip product "may import, distribute, or otherwise dispose of or use" that product without the authority

of the owner of the mask work).[6] To judicially supplement Section 109(a)'s authority for the copy owner "to sell or otherwise dispose of" possession with the additional ability to "import" copies, as petitioner proposes, would set at naught Congress's express inclusion and exclusion of importation rights in the different first sale provisions of its intellectual property legislation. See *United States* v. *Shabani*, 513 U.S. 10, 14 (1994) (when statutory term is absent in one statute, but explicit in a closely analogous statute, "Congress' silence * * * speaks volumes"); cf. *Gozlon-Peretz* v. *United States*, 498 U.S. 395, 404 (1991) ("Where Congress includes particular language in one section of a statute but omits it in another section of the same Act," courts must "presume[] that Congress acts intentionally and purposely in the disparate inclusion or exclusion.").

2. *Legislative history*

The legislative history confirms that the first sale doctrine does not limit the copyright owner's importation right. Prior to 1976, the Copyright Act barred the importation only of pirated versions of a copyrighted work. 17 U.S.C. 106, 107 (1970); see also H.R. Rep. No. 2222, 60th Cong., 2d Sess. 17 (1909). Amicus AFTA is correct (AFTA Br. 11-12) that, when the copyright law revision process commenced in 1961, the Register of Copyrights initially proposed retaining the narrow scope of the importation provision and not expanding it to address importations in violation of "agreements to divide international markets for copyrighted works." House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law*

[6] The Copyright Office is charged with administering the statutory protections afforded mask works. See 17 U.S.C. 908.

Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 126 (Comm. Print July 1961). The purpose of the Register's 1961 proposal, however, "was not to state a final Copyright Office position or even to argue the ultimate merits of a particular point of view," but rather was "to furnish a tangible core around which opinions and conclusions could crystallize." House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* IX (Preface) (Comm. Print May 1965).[7]

The narrow importation provision elicited a flurry of opposition. Industry representatives explained that copyright owners could not, as the Register's Report had initially suggested, rely upon breach of contract actions to enforce agreements limiting domestic importation and distribution by foreign owners of copies. See House Comm. on the Judiciary, 88th Cong., 1st Sess., *Copyright Law Revision Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 212 (Comm. Print Feb. 1963) (bringing such lawsuits "is expensive, burdensome, and, for the most part, ineffective"); *id.* at 213 (noting circumstances where "[t]here is just no possibility of any contract remedy"); *id.* at 275.

[7] Although petitioner selectively disparages (compare Pet. Br. 21 with Pet. Br. 16 n.7) consideration of the copyright law revision process as a guide to interpreting the Copyright Act of 1976, this Court has recognized its relevance. See *Mills Music, Inc.* v. *Snyder*, 469 U.S. 153, 159-161 & nn.14-25, 170-176 & nn.37-42 (1985).

In light of "the detailed comments and suggestions [the Register] had received," *Copyright Law Revision Part 6, supra*, at IX (Preface), the Copyright Office prepared a preliminary draft to revise the copyright law. The draft proposed amending the importation provision to afford statutory protection for the copyright owner's efforts to prevent the unauthorized importation of its work and provided that this right would be enforceable by the copyright owner in an infringement action. See House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Part 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft* 28, 32 (Comm. Print Sept. 1964). The Copyright Office explained that the new provision would pertain to foreign copies that, although properly authorized for distribution abroad, "if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States." House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* 203 (Comm. Print Dec. 1964). The draft thus envisioned that the copyright owner's authorization for the sale or manufacture of copies abroad would not affect the copyright owner's "exclusive right to sell copies in the United States." *Ibid.*; see also *id.* at 205-206, 209-210.

As petitioner and amicus AFTA both note (Pet. Br. 22-23; AFTA Br. 13-14), the 1964 discussions on the preliminary draft touched upon the interrelationship of the first sale doctrine and the new importation provision. *Copyright Law Revision Part 4, supra*, at 211-212. A full review of the exchange between industry representatives and the Copyright Office, however, reveals no statements supporting petitioner's or AFTA's proposed view of the first sale doctrine's scope. To the contrary, the exchange primarily reveals that the propriety of importation will often turn upon factual questions regarding what domestic first sales and authorizations may have preceded the importation. See *id.* at 211.[8] In fact, when one commentator voiced concern over the tension he perceived between the first sale doctrine and the importation right, the Copyright Office representative simply inquired whether the gentleman was "presenting this as an argument against this kind of provision." *Ibid.* Of course, if it were clear that the first sale provision limited the importation right, the comment would not have been construed as an "argument against" the new provision.

Despite that exchange, moreover, no substantive language changes were made in either the first sale provision or the importation provision that would suggest that the former limits the latter. And subsequent descriptions and analysis of the importation provision hinged its application solely on whether the copyright owner authorized the importation, paying no heed to whether the copyright owner had first sold the copy abroad. *E.g., Second Supplementary Report*

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[8] Indeed, it was because of the complex factual questions that would frequently underlie the determination of whether an importation was authorized by the copyright owner that Section 602 does not require Customs agents to bar the entry of lawfully made copies. 17 U.S.C. 602(b). While the Copyright Act requires Customs to prevent the importation of piratical copies, enforcement of the importation right against lawfully made copies acquired abroad is left to the copyright owner. *Ibid.*; see also *Copyright Law Revision Part 4, supra*, at 212-213; *Copyright Law Revision Part 6, supra*, at XXVI (Preface).

of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1975 Revision Bill 51 (Oct.-Dec. 1975) (Section 602(a) deals with "unauthorized importation of lawfully-made copies"); *Copyright Law Revision Part 6, supra*, at 149. If the importation were unauthorized, it could be enjoined "before any public distribution * * * had taken place." *Copyright Law Revision Part 6, supra*, at 149. Even where the "copyright owner had authorized the making of copies in a foreign country for distribution only in that country," importation of those copies into the United States without the separate authorization of the copyright owner "would be an infringement and could be enjoined." *Id.* at 150; see also *Copyright Law Revision: Hearings on H.R. 4347, H.R. 5680, H.R. 6831, H.R. 6835 Before Subcomm. No. 3 of the House Comm. on the Judiciary*, 89th Cong., 1st Sess. 1064 (1965) (*1965 House Hearings*) (Section 602 makes it an infringement of the U.S. copyright owner's rights "if copies or phonorecords of any copyrighted work are *imported* without his permission," even if the copies are "authentically made abroad (e.g., under the authority of the foreign copyright owner)"); *id.* at 1119 (importation "without the authority of the copyright owner" is an infringement).

The House and Senate reports accompanying the Copyright Act of 1976 continued to discuss Section 602 in those terms. S. Rep. No. 473, *supra*, at 151 ("unauthorized importation is an infringement merely if the copies or phonorecords 'have been acquired abroad'"); *id.* at 152 ("If none of the three exemptions applies, any unauthorized importer of copies of phonorecords acquired abroad could be sued."); H.R. Rep. No. 1476, *supra*, at 169-170 (same).

The legislative history of the first sale provision also offers no support for petitioner's proposed expansion of Section 109(a)'s scope beyond sales and disposals of possession to include imports. To the contrary, descriptions of the first sale doctrine's operation speak consistently in terms of sales or other disposals of possession, without any reference to the distinct activity of importation. See, *e.g.*, S. Rep. No. 473, *supra*, at 71 (first sale doctrine gives copyright owner no ability to interfere with a legitimate copy owner's decision to "dispose of [a copy] by sale, rental, or any other means" or "to transfer it to someone else or to destroy it"); H.R. Rep. No. 1476, *supra*, at 79 (same); *Copyright Law Revision Part 6, supra*, at 29 (under first sale doctrine, owner of a copy may "sell, lend, rent it, give it away, or destroy it").

Finally, petitioner asserts that "Congress was * * * aware of the view" (Br. 22 n.9) held by some that the first sale doctrine "should" apply to foreign sales, *ibid.* (quoting *1965 House Hearings* 468). Congressional cognizance, however, simply makes the legislature's failure to reference importation of those foreign-sold copies in Section 109(a)'s first sale provision, as it did in Section 906(b)'s separate first sale provision, all the more telling. Congress's silence must be considered to reflect a deliberate legislative judgment about the scope of Section 109(a), to which this Court should defer. See *Shabani*, 513 U.S. at 14.[9]

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[9] In addition to being contrary to the statutory language and congressional intent, petitioner's contention that a copyright owner's activities abroad (a first sale) can also diminish its rights under domestic copyright law overlooks that international copyright relations have generally been structured on the principle of territoriality. See, *e.g.*, Berne Convention for the Protection of Literary and Artistic Works, Art. 5(2) (Paris

3. *Petitioner's proposed construction would deprive Section 602(a) of any practical application*

By extending Section 602(a)'s importation protection from solely piratical copies to copies acquired abroad, the 1976 Copyright Act worked a significant expansion in the rights of copyright owners. Yet if, as petitioner urges, the first sale doctrine extinguishes the importation right whenever the copies in question were first sold abroad by the copyright owner (or with his authority), the copyright owner's right under Section 602(a) to prevent importation of legitimate copies would be drained of practical significance. Indeed, the few remote and random factual scenarios that petitioner is willing to concede would still fall within Section 602(a) reveal how cramped and circumscribed petitioner's proposed statutory construction is.[10] Tellingly, those examples make no significant appearance in the legislative history of the revision process and receive no mention in the House or Senate reports accompanying the 1976 legislation.

Act 1971). See generally S.M. Stewart, *International Copyright and Neighbouring Rights* §§ 3.16-3.17, at 37-39 (2d ed. 1989) (discussing the territoriality principle in the context of the national treatment obligations under international copyright conventions); cf *Blackmer* v. *United States*, 284 U.S 421, 437 (1932).

[10] See Pet. Br. 26-27 (limiting infringement suits for the unauthorized importation of legitimate copies to (1) a thief who stole the copies, (2) a bailee who had possession but not ownership of the copies, (3) a licensee who was licensed to reproduce the work but did not have title to the copies he produced, or (4) an entity that somehow produced copies under a foreign copyright without the authorization of the U.S. copyright owner).

In short, petitioner asks this Court to adopt a construction of the Copyright Act that, for practical purposes, would shrink the copyright owner's importation right to essentially the same narrow scope it was allotted in the 1909 Copyright Act. However, "[f]ew principles of statutory construction are more compelling than the proposition that Congress does not intend *sub silentio* to enact statutory language that it has earlier discarded." *INS* v. *Cardoza-Fonseca*, 480 U.S. 421, 442-443 (1987).[11]

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[11] Petitioner alternatively asserts (Br. 4-5 & n.1) that it did not import the copyrighted articles in this case, but rather purchased them after their importation, and thus cannot be held liable for an infringing "importation" under Section 602(a). The court of appeals found that petitioner had imported the copies. Pet. App. A3. The injunction under review, moreover, enjoins petitioner not only from selling respondent's products, but also from importing them. J.A. 110. In any event, the complaint charges petitioner with contributory copyright infringement and conspiracy, which, if proved, would make petitioner legally responsible for the import of respondent's products. See *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 434-438 (1984); *Columbia Broadcasting Sys., Inc.* v. *Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 48 (E.D. Pa. 1983), aff'd mem., 738 F.2d 421 & 424 (3d Cir. 1984) (Tables). Thus, at this stage, petitioner cannot claim to be an innocent subsequent purchaser of wrongfully imported products. Finally, while the United States takes no position on the proper resolution of the factual question posed by petitioner, we note that the petition for certiorari did not alert the Court to any lingering factual disputes that might be relevant to the legal question presented. If the Court determines that resolution of this factual dispute is necessary, a remand would be appropriate. On the present record, it would be premature to address the applicability of Section 602(a)'s protection to subsequent, innocent purchasers of imported goods.

B. The Importation Right Created By Section 602(a) Is Distinct From The Distribution Right That Is Subject To The First Sale Doctrine

Even if the Court were to conclude that Section 109(a)'s references to "sell[ing]" or "dispos[ing] of possession" encompass the importation of copies, petitioner's position encounters a second textual hurdle. The premise for petitioner's proposed construction of the Copyright Act is that the importation right created by Section 602(a) is simply a subcomponent of the distribution right created in Section 106(3) and, as such, is limited by Section 109(a)'s restriction on that distribution right. Pet. Br. 13-17. There is little doubt that importation and distribution are connected as a practical matter. Importation is often undertaken for purposes of distributing goods. The question in this case, however, is whether Congress envisioned importation to be an activity meriting independent statutory protection or whether, instead, Congress intended Section 602(a)'s operative force to be entirely subsumed within and dependent upon the Section 106(3) distribution right. The language and overall structure of the Copyright Act demonstrate that the importation right enjoys a status and level of protection that is distinct from the general distribution right.

1. *Plain language*

As an initial matter, the plain meanings of the terms "importation" and "distribution" address different (albeit related) commercial activities. As previously noted, the term "importation" signifies the act of bringing or carrying in an item from an outside or foreign source. VII *Oxford English Dictionary*, *supra*, at 728; *American Heritage Dictionary*, *supra*,

at 660, 661. "Distribution," on the other hand, addresses the activity that generally precedes or postdates importation: "To divide and dispense in portions; parcel out," *American Heritage Dictionary*, *supra*, at 383, by, in the terms of the Copyright Act, "sale or other transfer of ownership, or by rental, lease, or lending," 17 U.S.C. 106(3). See also IV *Oxford English Dictionary*, *supra*, at 867. The two terms thus address discrete steps in an overall economic undertaking by a copyright owner.

The Copyright Act, moreover, repeatedly identifies importation as an activity separate and apart from the conduct protected by Section 106, which includes distribution. Section 501, for example, defines "infringement of copyright" as follows:

> Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), *or* who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright.

17 U.S.C. 501(a) (emphasis added). Congress thus specifically recognized a violation of Section 602's importation right to be a distinct and separate infringement of the copyright.[12]

The Copyright Act's manufacturing clause, likewise, expressly describes "importation" and "public distribution" as two distinct regulated activities. 17

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[12] This provision also answers petitioner's contention (Br. 16-17) that, if Congress intended Section 602 to create a distinct right, it would have framed Section 602 like Section 106A, which petitioner concedes creates a separate and independent right. Section 501(a) accords Section 602 the same textually distinct status as a basis for infringement that it affords Section 106A.

U.S.C. 601(a). See also 17 U.S.C. 1002(a) ("No person shall import, manufacture, *or* distribute any digital audio recording device or digital audio interface device.") (emphasis added), 1008 ("No action may be brought under this title alleging infringement of copyright based on the manufacture, importation, *or* distribution" of specified digital devices) (emphasis added); cf. 17 U.S.C. 905(2) (exclusive rights in mask works include "to import *or* distribute a semiconductor chip product in which the mask work is embodied") (emphasis added), 906(b) (owner of a particular semiconductor chip product "may import, distribute, or otherwise dispose of or use" that chip), 907(a) (innocent purchaser shall incur no liability for "importation *or* distribution") (emphasis added).

Congress's persistent, disjunctive use of the two terms counsels against a construction of the Copyright Act, such as petitioner proposes, that would render those references to importation redundant and of no independent force. *Bailey*, 116 S. Ct. at 506-507 (statutory construction begins "with the assumption that Congress intended each of its terms to have meaning" and "[j]udges should hesitate * * * to treat [as surplusage] statutory terms in any setting"). Congress's physical separation of the importation right into its own chapter of the Copyright Act further underscores its distinct identity. See Pub. L. No. 94-553, 90 Stat. 2541.

It is true that Section 602(a) describes a proscribed importation as an infringement of the Section 106 "right to distribute copies or phonorecords." That connection, however, was meant to identify who may sue to enforce the Section 602 importation right, not to delimit the scope of that right. The initial draft legislation creating the importation right identified

the unlawful importation as "an infringement of copyright actionable under section 35 [the precursor to Section 501]." *Copyright Law Revision Part 3*, *supra*, at 32. The language was subsequently reconfigured to make clear that only copyright owners who retain their distribution rights can enforce the importation right. That change ensured that copyright owners who are subject to a compulsory license (and thus have no Section 106(3) distribution right) could not interfere with importations. See *Copyright Law Revision Part 4*, *supra*, at 205-206, 211, 213.

2. Legislative history

The legislative history confirms that drafters considered the importation right to be distinct from and supplementary to the previously recognized rights of copyright owners. When the precursor to Section 602(a) was first proposed in a preliminary draft of legislation prepared by the Copyright Office, the Copyright Office explained that, as before, an infringement action could be based upon violation of the rights currently outlined in Section 106 (then Section 5). *Copyright Law Revision Part 4*, *supra*, at 116. The Copyright Office noted, however, that the draft "add[ed] a *new concept*: that an importation [of nonpirated works] into the United States is an infringement. We don't have that in the law now." *Ibid.* (emphasis added). See also *Copyright Law Revision Part 6*, *supra*, at 131 (unauthorized importation is an act of infringement that is "*in addition to* violations of the copyright owner's exclusive rights," such as distribution) (emphasis added); *id.* at 149 (Section 602(a) violation can occur "even before any public distribution of imported copies or phonorecords ha[s] taken place").

The House and Senate reports accompanying the 1976 Copyright Act confirmed the status of importation as a distinctly protected right. Both reports explained that an "unauthorized importation" is an infringement "merely if the copies or phonorecords 'have been acquired outside the United States.'" H.R. Rep. No. 1476, *supra*, at 169; S. Rep. No. 473, *supra*, at 151; see also H.R. Rep. No. 1476, *supra*, at 170 ("[T]he mere act of importation in this situation would constitute an act of infringement and could be enjoined."); S. Rep. No. 473, *supra*, at 152 (same); S. Rep. No. 983, 93d Cong., 2d Sess. 201 (1974) (same). Distribution was thus considered unnecessary to state a violation of the copyright owner's importation right: "[A]ny unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them, even before any public distribution in this country has taken place." H.R. Rep. No. 1476, *supra*, at 170; S. Rep. No. 473, *supra*, at 152. In sum, Congress did not make an exercise of the importation right dependent upon whether or how the copyright owner's distribution right had been exercised.

C. Application Of The First Sale Doctrine To The Unauthorized Importation Of Copies Sold Abroad Would Be Inconsistent With International Agreements Negotiated By The United States

The United States has taken the position in international trade negotiations that domestic copyright owners should, and do under United States law, have the right to prevent the unauthorized importation of copies of their work sold abroad. Currently, at least five international trade agreements embody that principle and will obligate the United States to pro-

vide such protection in its copyright law.[13] See Agreement Between the United States of America and the Kingdom of Cambodia on Trade Relations and Intellectual Property Rights Protection at 11 (signed at Washington Oct. 4, 1996) ("Each Party shall provide to authors and their successors in interest * * * the right to authorize or prohibit * * * the importation into the Party's territory of copies of the work, regardless of whether such copies have been placed on the market by the relevant right holder."); Memorandum of Understanding Between the Government of the United States of America and the Government of Trinidad and Tobago Concerning Protection of Intellectual Property Rights at 3 (signed at Washington Sept. 26, 1994) (same); Agreement Concerning the Protection and Enforcement of Intellectual Property Rights Between the Government of the United States of America and the Government of Jamaica at 5 (signed at Kingston Mar. 17, 1994) ("Each Party shall provide in respect of works protected under paragraph (1) of this Article, the economic rights of authors and their successors in interest * * *. For this purpose, the Parties agree that such rights shall include the following: * * * the right to authorize or prohibit the importation into the territory of the Party of copies of the work."); Agreement Concerning the Protection and Enforcement of Intellectual Property Rights Between the Government of the United States of America and the Government of Ecuador at 4-5 (signed at Washington Oct. 15, 1993) (same); Agreement on the Protection and Enforcement of Intellectual Property Rights Between the United States of America and the Democratic Socialist Republic of

[13] Although all of the agreements have been signed, not all of them have entered into force at this time.

Sri Lanka at 3 (signed at Colombo Sept. 20, 1991) (defining rights that each party shall protect to include "the exclusive right to import or authorize the importation into the territory of the Party of lawfully made copies of the work").[14]

The United States has also advanced this position in multilateral trade negotiations. See, *e.g.*, World Intellectual Property Org., Draft Proposal Submitted to the Committee of Experts on a Possible Protocol to the Berne Convention 4 (Dec. 5, 1995) ("Authors and their successors in interest shall have the exclusive right to authorize * * * the importation, including by transmission, of the original and copies of the work, even following any sale or other transfer of ownership of the copies by or pursuant to authorization and irrespective of whether the imported copies were made with or without authorization."); World Intellectual Property Org., Draft Proposal Submitted to the Committee of Experts on a Possible Instrument for the Protection of the Rights of Performers and Producers of Phonograms 2 (Dec. 5, 1995) (same, with respect to musical performers' control of phonograms).[15] Even when the United States has not been successful in having parallel import protection included in final treaty language, the United States' strong position on this question has

[14] We have lodged copies of these five international trade agreements, along with the draft agreements and State Department telegrams discussed *infra*, with the Clerk of the Court.

[15] See also Department of State Telegram No. 384388, at 4-5 (dated Nov. 13, 1990) (describing United States negotiating position). Neither the Universal Copyright Convention (1971) nor the Berne Convention for the Protection of Literary and Artistic Works addresses the issue of parallel imports.

prevented the adoption of language that would specifically deny copyright owners the authority to control importation of copies of their work acquired abroad.

As this Court has recognized,

> [i]f the United States is to be able to gain the benefits of international accords and have a role as a trusted partner in multilateral endeavors, its courts should be most cautious before interpreting its domestic legislation in such manner as to violate international agreements.

Vimar Seguros y Reaseguros, S.A. v. *M/V Sky Reefer*, 515 U.S. 528, 539 (1995). Petitioner's proposed construction of the Copyright Act, however, would require this Court to adopt an interpretation of the Act that is inconsistent with our commitments under international agreements and our representations to foreign governments regarding the status of United States copyright protection against parallel imports. See also Department of State Telegram No. 175323, at 3 (dated Aug. 22, 1996) ("If a U.S. copyright owner consents to the sale of its goods in [for example] China, it has not exhausted its rights to control distribution as to those copies should they be imported into the U.S."); Department of State Telegram No. 384388, at 3, 7-10 (dated Nov. 13, 1990).

The provision of such domestic and international protection against parallel imports to copyright owners, moreover, reflects important international economic development policies of the United States, especially with respect to developing nations. With the encouragement of the federal government, book publishers and other producers of copyrighted materials have offered special and cheaper editions of their

works to meet local needs in underdeveloped countries. Effective restrictions on the export of those special editions back to the United States are critical to maintaining the willingness of American businesses to offer products with concessionary pricing to developing countries and thus to support American foreign policy goals. See Department of State Telegram No. 384388, *supra*, at 4 ("In effect, the U.S. private sector has voluntarily reflected U.S. Government policy in seeking to assist and support lesser developed countries. If these special editions could be introduced into other markets in competition with locally authorized editions, the ability of publishers to support these concessions by adequate reward from worldwide markets would be impaired."). Petitioner's proposed limitation on the importation right would seriously frustrate the federal government's pursuit of this important international developmental and economic policy.[16]

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[16] Even if we assume that it has some relevance to the statutory construction issue presented, petitioner's suggestion (Pet. Br. 3, 7-9, 29-31; Pet. 20-23) that a narrow reading of Section 602(a) would best promote the economic interests of American citizens fails to take account of these international economic concerns. Over the long term, promoting economic growth in lesser-developed nations through lower prices for copyrighted materials can increase both the demand for domestic production and competition in the affected markets. Furthermore, petitioner's proposed construction of the Copyright Act could reduce exports and, therefore, lower domestic employment. Petitioner's position might also result in curtailed promotional activities by U.S. manufacturers, which could harm consumers. Protection from parallel imports, on the other hand, permits the efficient partitioning of the world into national markets and the customization of product marketing to meet local needs and circumstances. See also Department of State Telegram No. 175323, *supra*, at 3 (The effects of parallel imports "can be severe and quite contrary to the domestic interests of a country. In some cases, it will be so difficult for [a] higher-priced domestically produced product to compete with the less expensive import that domestic production will cease. This could result in the loss of the domestic manufacturing jobs and jobs related to the support of such manufacturing. It could also result in the loss of tax revenue."). More generally, petitioner's position would impede a copyright owner's ability to distribute its products worldwide in the most efficient manner, thereby leading to reductions in output. In short, strong domestic and international economic policies support Congress's grant of an importation right to copyright owners that is not affected by a first sale abroad.

D. Alternative Constructions Of The Interrelationship Of Sections 602(a) And 109(a) Are Incorrect

None of the alternative approaches adopted by courts in construing Sections 109(a) and 602(a) of the Copyright Act can withstand scrutiny.

1. Some courts have read into Section 109(a) a distinction between copies made and sold by the copyright owner and those made and sold by a licensee. See, *e.g.*, *Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 (3d Cir. 1988). But neither the language of the first sale provision nor its legislative history assigns any relevance to the identity of the seller of particular copies. That omission is not surprising, given the lack of significance in copyright law of the identity of the person lawfully exercising the copyright owner's rights. Once authorized by the copyright owner, a licensee can exercise the licensed rights in the same manner as the copyright owner. In fact, the Act considers an exclusive license to be a "transfer" of rights (17 U.S.C. 101), and denominates the licensee a "copy-

right owner" with respect to the licensed rights (*ibid.*).[17]

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[17] The attempt to distinguish between sales by a copyright owner and sales by a licensee in applying Section 109(a) to parallel imports confuses copyright and trademark concepts. Unlike copyright law, trademark law looks to the identity of the seller and its relationship to the right holder in determining whether the latter can bar parallel imports. See, *e.g.*, 19 C.F.R. 133.21(b), (c)(1) and (2) (creating an exception to the statutory ban on importation of goods bearing a U.S. trademark without the owner's authorization for goods that are manufactured by the trademark owner himself or a related entity); *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281 (1988). This Court has noted "the fundamental differences between copyright law and trademark law" and has declined to apply the doctrines formulated in one area to the other. *Sony Corp.*, 464 U.S. at 439 n.19. Distinguishing the two areas of law is particularly appropriate in the parallel import context. The purpose of copyright law is to encourage and reward creative effort as a means of promoting the broad, public availability of literature, music, and other arts. *Harper & Row, Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539, 545-546, 558 (1985). Allowing copyright owners to restrict parallel imports promotes this goal by increasing the incentives to authors and artists to produce and market their works. The primary purposes of trademark law, by contrast, are to protect against consumer confusion as to the source of goods and to preserve the public good will the manufacturer creates with its product. See, *e.g.*, *Mazer*, 347 U.S. at 207 n.5 (discussing different purposes of trademark and copyright law); *A. Bourjois & Co.* v. *Katzel*, 260 U.S. 689, 692 (1923). The importation into the United States of genuine goods sold abroad does not implicate those interests.

The reliance that amici Costco Companies, et al, place on patent law (Costco Br. 15-16) is also misplaced. Patent and copyright law "are not identical twins," so courts should exercise "caution * * * in applying doctrine formulated in one area to the other." *Sony Corp.*, 464 U.S. at 439 n.19; see also *id.* at 442. In 1994, moreover, Congress amended the patent law to provide that "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. 271(a).

2. Courts have also attempted to make the availability of the first sale doctrine turn upon whether the copyright owner has realized "full value" for its work. *E.g.*, Pet. App. A11; *Parfums Givenchy, Inc.* v. *C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1391 (C.D. Cal. 1993). This approach, however, finds little support in the text of the Copyright Act or its legislative history. Section 109(a) applies to the owner of any "particular copy or phonorecord lawfully made under [the Act]," not merely to owners of copies for which the copyright owner has received full value. Similarly, the copyright owner's parallel importation right in Section 602(a) covers "copies * * * of a work that have been acquired outside the United States," without any limitation as to the value the copyright owner may already have received for those particular copies. Furthermore, because the full value of a copyright depends in part on the scope of the rights the law conveys to the copyright owner, it is circular to use full value to define the scope of the copyright protection in the first instance.

3. Finally, courts have made distinctions based on the place where copies were manufactured, holding that Section 109(a) does not apply to copies manufactured abroad. See, *e.g.*, *BMG Music* v. *Perez*, 952 F.2d 318, 319 (9th Cir. 1991), cert. denied, 505 U.S. 1206 (1992); *Columbia Broadcasting Sys., Inc.* v. *Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), aff'd mem., 738 F.2d 421 & 424 (3d Cir. 1984) (Tables). Those courts have reasoned that the phrase "lawfully made under this title" in Section 109(a)

refers to authorized copies made within the United States, where "this title" is applicable.

When, however, Congress wishes to make the location of manufacture relevant to Copyright Act protection, it does so expressly. See, *e.g.*, 17 U.S.C. 601(a) (prohibiting, prior to July 1, 1986, importation into or public distribution in the United States of copies of certain works "unless the portions consisting of such [works] have been manufactured in the United States or Canada"). Indeed, it is distinctly unlikely that Congress would have provided such an incentive to manufacture abroad at the same time it was shielding the domestic printing industry under Section 601.[18]

[18] The correct and more natural reading of the phrase "lawfully made under this title" refers simply to any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17. See *Parfums Givenchy*, 832 F. Supp. at 1387. That reading is also consistent with the legislative history. See, *e.g.*, H.R. Rep. No. 1476, *supra*, at 79; S. Rep. No. 473, *supra*, at 72; S. Rep. No. 983, *supra*, at 123.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,

Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF OF *AMICI CURIAE*, COSTCO COMPANIES, INC., WAL-MART STORES, INC., TARGET STORES, A DIVISION OF DAYTON HUDSON CORPORATION, NATIONAL ASSOCIATION OF CHAIN DRUG STORES, INTERNATIONAL MASS RETAIL ASSOCIATION, NATIONAL ASSOCIATION OF CATALOG SHOWROOM MERCHANDISERS, and THE FOOD MARKETING INSTITUTE, IN SUPPORT OF PETITIONER

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INTEREST OF *AMICI CURIAE*

Amici have received written consents to file this brief from petitioner and respondent and are filing these consents separately with the Clerk of the Court.[1]

1. The Individual *Amici*

Costco Companies, Inc. ("Costco") through its subsidiaries operates "Costco Wholesale" and "Price Club" membership warehouse clubs in the United States and abroad. Costco's annual sales of over $20 billion make it the seventh largest retailer in the United States, and approximately 20,000,000 U.S. cardholders shop at its warehouse locations.

Wal-Mart Stores, Inc. is the largest retailer in the United States, with over $104 billion in annual sales. It operates both "Wal-Mart" stores (2,565 U.S. locations) and "Sam's" membership warehouse clubs (438 U.S. locations).

Target Stores, a division of Dayton Hudson Corporation, accounted for over 70% of the corporation's 1996 annual sales revenue of more than $25 billion dollars, making Dayton Hudson the fifth largest general merchandise retailer in the United States. Target operates 769 stores in 39 states.

Each of the individual *amici* will be immediately affected by the decision in this case. Each sells a wide range of merchandise that includes imported goods with copyrighted labels or features. Since 1994, Costco has been sued four times, solely in the Ninth Circuit, on claims that its sales of genuine goods violate Section

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[1] No counsel for either of the parties authored this brief in whole or in part. No person or entity, other than *amici curiae*, their members and their counsel, made a monetary contribution to the preparation or submission of this brief.

602(a) of the Copyright Act.[2] One of those lawsuits was brought by respondent. Wal-Mart has been sued on the same theory.[3] A decision in this case recognizing a Section 602(a) claim will subject the individual *amici* to future liability for selling genuine products with copyrighted labels in the normal course of their businesses, and impose barriers and additional costs when purchasing such products from anyone other than the U.S. copyright owner.

2. The Association *Amici*

National Association of Chain Drug Stores has approximately 130 members that operate 25,419 retail chain drug store outlets throughout the United States. Its members generate over $110 billion in sales. A list of its members is in the Appendix, *infra* at 1a.

International Mass Retail Association ("IMRA") represents 180 member companies, including discount department stores, home centers, category-dominant or specialty discounters, catalogue showrooms, dollar stores, warehouse clubs, deep discount drugstores and off-price stores. Collectively, IMRA retail members operate more than 70,000 stores in the U.S. and abroad and employ over two million Americans. IMRA retail members cumulatively represent over $380 billion in annual sales.

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[2] *Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corporation*, 97 F.3d 377 (9th Cir. 1996); *Swarovski America Ltd. v. Price/Costco Inc., et al.* and *Swarovski America Ltd. v. Costco Wholesale Corp.*, C.D. Cal. Nos. 93-6365 SVW, 93-7403 SVW (Judgment Dec. 21, 1994); *L'anza Research Int'l, Inc. v. Costco Wholesale Corp.*, C.D. Cal. No. 95-0244 TJH (settled 1995); *Montblanc-Simplo GmbH et al. v. Costco Wholesale Corporation et al.*, C.D. Cal. No. CV 96-1160 DT (settled 1996).

[3] *E.g. Parfums Givenchy, Inc. v. K mart Corporation, Sears Roebuck and Co., Wal-Mart Stores, Inc., et al.*, C.D. Cal. No. 94-764 HLH.

National Association of Catalog Showroom Merchandisers is an association of catalog showroom merchandisers, whose members use catalogs showing brand name products as a principal medium of advertising. It has several hundred members; its member discount retail stores account for approximately $5 billion in annual sales.

The Food Marketing Institute ("FMI") is a nonprofit association conducting programs in research, education, industry relations and public affairs on behalf of its 1,500 members including their subsidiaries – food retailers and wholesalers and their customers in the United States and around the world. FMI's domestic member companies operate approximately 21,000 retail food stores with a combined annual sales volume of $220 billion – more than half of all grocery store sales in the United States. FMI's retail membership is composed of large multi-store chains, small regional firms, and independent supermarkets.

Each of the *amici* associations advocates the freedom of its members to purchase and resell genuine brand name products, to make available such products at competitive prices as determined by each individual retailer, and thereby to compete freely with other forms of retailing. The Ninth Circuit's decision in this case presents a substantial threat to those freedoms. If the decision stands, the retailer members of the *amici* associations will face significant costs and impediments in purchasing and reselling genuine goods having a copyrighted label or feature, affecting substantial commerce. As a result, U.S. consumers who shop at the thousands of retail stores operated by the *amici* associations' members will be denied access to the benefits of open competition, including the lowest possible prices.

SUMMARY OF ARGUMENT

1. When an author creates a work, he or she automatically obtains a copyright virtually worldwide. Although the author may then internationally exploit the copyright by a variety of methods, two prototypes of these methods help illustrate the effect of Section 109(a) on Sections 106 and 602(a) of the Copyright Act. In "Case 1," the copyright owner keeps all worldwide rights for itself and makes and sells all copies of the work, either in the United States or abroad. In "Case 2," the U.S. copyright owner absolutely transfers certain of its foreign rights to others, and the assignee or exclusive licensee of those foreign rights makes and sells the copies in question.

Whether Section 109(a) cuts off the exclusive distribution right referred to in Sections 106 and 602(a) differs between Cases 1 and 2. In Case 1, since the U.S. copyright owner itself will have made the particular copies, those copies will be deemed "lawfully made under this title" for purposes of Section 109(a) and, thus, may be freely sold by downstream purchasers. This is also true if the U.S. copyright owner has made the copies in a foreign country or contracted with a foreign manufacturer to make them abroad. Where, as here, the U.S. copyright owner itself has made the copies in the United States, Section 109(a) explicitly cuts off the exclusive distribution right on which Section 602(a) depends.

By contrast, where an independent owner of foreign rights has made and sold the copies that are subsequently imported (Case 2), those copies will likely be "lawfully made" only under foreign copyright laws, and not "under this title" for purposes of Section 109(a). If so, Section 109(a) would not cut off the Section 106(3) distribution right and that right would survive for purposes of Section 602(a).

If legislative history need be considered, one finds that Section 109(a) is based on the common-law principle prohibiting restraints on the alienation of personal property. When it first enacted the first-sale doctrine, and when it later re-enacted it in Section 109, Congress made clear that it was adopting this common law principle. Once a copyright owner has transferred ownership of a particular copy, the copyright owner may not exercise any control whatever over that copy. In the patent area, where a first-sale doctrine developed in tandem with that of the copyright law, the courts have applied the doctrine where U.S. patent owners have sold patented articles abroad. Similarly, the goal of Section 109(a) is to avoid restraints on downstream owners, no matter if the intellectual property owner has sold the object in the United States or in a foreign country.

In addition, a sale overseas is but one of numerous foreign "operative acts" referred to in, or contemplated by, the Copyright Act. Although courts will not normally *enforce* acts of Congress beyond the territorial boundaries of the United States, this case does not involve enforcement of the Copyright Act in any foreign country. Instead it involves a commercial transaction originating from the United States and directed abroad, that has *legal significance* for rights claimed within the United States. Even if L'anza is deemed to have made a sale abroad, it will not prevent operation of Section 109(a).

2. If, however, Section 602(a) is to be exalted over the apparent command of Section 109(a), its effect should be limited to the sole act proscribed by that provision, "importation." Section 602(a) should not be extended to downstream merchants, like Quality King or *amici* and their members. The "good faith purchaser" rule, which normally protects merchants that deal in genuine goods, should not be overriden by judicial fiat.

ARGUMENT

I.

A SALE TO A FOREIGN MARKET BY THE U.S. COPYRIGHT OWNER ITSELF CUTS OFF THE DISTRIBUTION RIGHT MENTIONED IN SECTION 602(a).

It is useful to analyze this case from the viewpoint of how, internationally, a copyright is originated and may be exploited. Here, L'anza created an original graphic design for its product labels. From the moment of creation, L'anza had a copyright in the United States and most other nations. This occurred both under Section 104 of the Copyright Act, 17 U.S.C. §104, and under the multilateral treaties implemented by the Act. In particular, the Berne Convention and the Universal Copyright Convention give an author in any convention country automatic recognition of, and protection for, his or her works upon their creation. Article 5 of the Berne Convention provides in part:

> (1) Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.
>
> (2) The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work. . . .

Berne Convention for the Protection of Literary and Artistic Works (Paris 1971), S. Treaty Doc. No. 27, 99th Cong. 2d Sess., 40 (1986). Similar provisions appear in Article II of the Universal Copyright Convention, 25 UST 1341 (1971). Section 104 of the Copyright Act implements these international obligations by granting reciprocal protection to works created or published in

countries adhering to the Berne Convention and Universal Copyright Convention, as well as in other foreign nations. *See* 17 U.S.C. §104(b).

This system of treaty rights, thus, gave L'anza instantaneous recognition of its copyright virtually worldwide. Although the protections may vary country by country, L'anza, as the "owner of copyright," controlled the full bundle of rights embodied in its U.S. and foreign copyrights.[4]

A copyright owner may choose different paths to exploit its copyright internationally, including various permutations of assignments and licenses. To illustrate the interaction of Sections 106, 109(a) and 602(a), however, we focus on two prototypical "cases" that result in a sale.[5]

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[4] "Owner of copyright," the term used in 17 U.S.C. §§106 and 602(a), means the owner of the entire copyright. By contrast, a "copyright owner" is defined as, "with respect of any one of the exclusive rights comprised in a copyright, . . . the owner of that particular right." 17 U.S.C. §101. Thus, where U.S. rights have been licensed, a "copyright owner" will not be the "owner of copyright"; rather, "the licensor remains the owner of the copyright, and the licensee is the owner only of the exclusive rights that are the subject of [the] license. . . ." 3 M. Nimmer & D. Nimmer, *Nimmer on Copyright* §10.02[C][2] (1996). Since here L'anza is both the owner of copyright and the copyright owner of all exclusive rights, we use the terms interchangeably.

[5] Besides a sale, a copyright owner may simply lease or entrust a copyrighted object. Leases, for example, are common in motion picture distribution. Similarly, a foreign contract manufacturer or warehouse operator may possess copies while performing services for a copyright owner. If a bailee or lessee breached its agreement with the copyright owner and transferred a copy to a third party, there would not have been any first sale by anyone with rights under the U.S. copyright. Nor would good title be transferred if a copy were stolen from a copyright owner, lessee or bailee, *see Textile Supplies, Inc. v. Garrett*, 687 F.2d 123, 127 (5th Cir. 1982), and, in that case, there would be no subsequent "owner" within the meaning of Section 109(a).

Case 1. A copyright owner may keep for itself, as L'anza has done in this case, all U.S. and foreign rights in its copyright. If the copyright owner chooses this path, it will control the reproduction of all copies of the copyrighted work. If the copyright owner makes those copies in the United States (as L'anza does) or in a foreign country, they will be lawful copies under the laws of all countries. As discussed below, in the eyes of the U.S. Copyright Act the copies will be "lawfully made under this title." 17 U.S.C. §109(a).

In addition, the copyright owner in Case 1 will necessarily control the first distribution of each genuine copy; it will set the price and terms of the first sale, and it has the ability to negotiate contractual restrictions with its immediate purchasers. To market its product internationally, a copyright owner like L'anza could sell to a U.S.-based distributor (with or without an agreement on where the latter may resell). Or, as actually happened here, the owner could sell to a distributor abroad. Under either scenario, importation may occur if a third party purchaser in a foreign nation finds it economical to resell the goods back to a customer in the United States.

Case 2. The second prototype involves an absolute transfer of foreign rights. By an assignment or unconditional exclusive license, a copyright owner may transfer the full bundle of rights under one or more foreign copyrights. If that occurs and if the assignees or licensees reproduce copies in the foreign nations concerned, those copies would be lawfully made in the eyes of the foreign copyright law. However, although genuine copies, they would appear not to have been made under any right or authority derived from the U.S. Copyright Act.

Also under this Case 2, the owner of the U.S. copyright will not usually control sales of the foreign-made

copies; the assignee or exclusive licensee of the foreign rights will set the price and terms of the first sale. Importation might then be the result of the foreign copyright owner selling to a U.S. customer, or of a third party purchaser exporting to the United States.

We submit that L'anza's ability to restrict imports under Section 602(a) differs between Cases 1 and 2. In particular, Section 602(a) does not give a copyright owner the blanket right to keep out all imports of products bearing its copyrighted design. Rather, Section 602(a)'s applicability depends on whether the copyright owner's exclusive right to distribute particular copies (under Section 106) survives until the time of the importation, or whether that right has been cut off (under Section 109(a)) by a prior sale. Section 109(a)'s applicability, in turn, depends on whether the particular copies were made by or for the U.S. copyright owner (Case 1), or made solely under foreign law by an independent owner of foreign rights (Case 2). As we demonstrate below, Section 109(a) operates to extinguish a U.S. copyright owner's rights under Sections 106(3) and 602(a) where, as here, the copyright owner itself has made the copies and put them into the stream of commerce.

A. Section 602(a) Will Not Apply Where The Section 106 Distribution Right Has Been Cut Off By A First Sale Of A Copy That Is "Lawfully Made Under This Title."

In Section 602(a), Congress adopted a middle ground between giving a copyright owner a new right to prohibit imports and allowing unrestricted importation. Congress decided that importation of a particular copy would simply be "an infringement of the exclusive right to distribute copies and phonorecords under section 106. . . ." 17 U.S.C. §602(a). Thus, to have a claim under Section

602(a), the U.S. copyright owner must still have the Section 106 exclusive distribution right for the particular copies that had been imported. But if the Section 106(3) exclusive right to distribute has been cut off (for example, by Section 109(a)'s first sale doctrine), Section 602(a) can no longer (for those copies) state "an infringement of the exclusive right to distribute copies . . . . under section 106." 17 U.S.C. §602(a).

Where it applies, Section 109(a) unquestionably cuts off L'anza's rights under Section 106(3). The exclusive distribution right L'anza is claiming under Section 106(3), for purposes of Section 602(a), is "[s]ubject to sections 107 through 120" (17 U.S.C. §106), which of course encompasses Section 109(a). Conversely, any subsequent "owner" of a product bearing a copy of Lanza's design that has been "lawfully made under this title" is free to resell that copy "[n]otwithstanding the provisions of section 106(3). . . ." 17 U.S.C. 109(a).

On its face, Section 109(a) applies where the U.S. copyrighted owner itself has made the copies (as in the Case 1 scenario), as opposed to an unrelated assignee or licensee solely of foreign rights (the Case 2 scenario, not at issue here).[6] By its language, Section 109(a) applies to copies that have been "lawfully made under this title. . . ." 17 U.S.C. §109(a). This provision asks both whether the copy is a lawful one and whether its reproduction was lawful "under this title." If made by or at the discretion of the U.S. copyright owner, it will be treated as lawful under the Copyright Act.

[6]This case also does not present, and thus the Court should not decide, what would happen if the U.S. copyright owner and the foreign assignee or licensee were under common ownership or control. This was a situation involved in the Court's decision in *K mart Corporation v. Cartier*, 486 U.S. 281 (1988), but is not at issue here.

This is true even where the U.S. copyright owner has the copyrighted article made in a foreign country. For example, if L'anza had a particular copy made in Europe, imported it and then sold it to a U.S. customer, Section 109(a) unquestionably would allow the U.S. customer "without authority of the copyright owner, to sell or otherwise dispose of the possession of that copy. . . ." 17 U.S.C. §109(a). The foreign-made copy would be "lawfully made under this title." *Id.*; *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1149-50 (9th Cir.), *cert. denied*, ___ U.S. ___, 117 S.Ct. 190 (1996) (goods made for U.S. copyright owner by a Hong Kong manufacturer are covered by Section 109(a)); *cf. Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994), *cert. denied*, ___U.S. ___, 115 S.Ct. 1315 (1995) (copyrighted goods made by a U.S. copyright owner in France are "lawfully made under this title," but, under Ninth Circuit law, sales abroad of such goods do not extinguish rights under Sections 106 and 602(a)).

By contrast, in the Case 2 scenario, if an independent assignee or licensee of foreign rights had made the particular copy, one could say that the copy was "lawfully made," but only under a foreign nation's laws and not "under this title" within the meaning of Section 109(a).

Because here the U.S. copyright owner made the particular copies (and did so in the United States), the language of Section 109(a) (together with that of Sections 106 and 602(a)) should be dispositive. Yet, if it need be considered, the underlying purpose of Section 109(a) supports the same result. As shown below, Section 109(a) and its precursors were intended to preclude a U.S. copyright owner from selling a copyrighted object and then invoking federal copyright remedies to restrain future

alienation of that object – even where the U.S. copyright owner sells to a foreign market.

B. Section 109's Policy Against Restraints On Alienation Applies Even Where A U.S. Copyright Owner Sells To A Foreign Market.

1. Section 109(a) did not simply materialize in the Copyright Act of 1976; its roots are far more deep:

> Section 109(a) *restates* and confirms the principle that, where *the copyright owner* has transferred ownership of a particular copy . . . the person to whom the copy . . . is transferred is entitled to dispose of it by sale, rental, or any other means

House Report No. 94-1476, 94th Cong. 2d Sess. 79 (1976) (emphasis added). In particular, Section 109 restated a rule from the 1909 Act which, in turn, codified a body of judicial precedent:

> Section 41 is not intended to change in any way *existing law* . . . . [I]t would be most unwise to permit the copyright proprietor to exercise *any control whatever* over the article which is the subject of copyright after said proprietor has made the first sale"

House Report No. 2222, 60th Cong. 2d Sess. 28-29 (1909) (emphasis added).

The "existing law" codified in the 1909 Act focused on the Anglo-American rule prohibiting restraints on the alienation of chattels. The courts of both the United States and England had held that, where a copyright owner itself had sold an object embodying a copyrighted work, (1) normal rules against a seller imposing restraints on the subsequent alienation of that object would apply, and (2) the copyright owner/seller would have to look to contract law, not copyright legislation, for claims against

purchasers of the object. A lucid summary appeared in *Henry Bill Publishing Co. v. Smythe*, 27 F. 914 (S.D. Ohio 1886):

> [W]henever the owner of the copyright undertakes, by contract, to attach conditions to his sale of copies of the work, he must rely on the ordinary remedies for a breach of the contract, if it be violated; and this is sound doctrine. Inseparably with the transfer of the title in any copy of the work must go the right of alienation, so far as the peculiar protection of the copyright statutes is concerned . . . .
>
> * * *
>
> A genuine copy, owned by the owner of the copyright, carries with it the ordinary incidents of alienation belonging alike to all property, and, if he parts with the copyright, he retains with the ownership of the particular copy this power of sale; or if he sells a copy to another, having, as owner of the copyright, authorized a transfer, the purchaser takes the copy with the ordinary incident of alienation belonging to all property; and that copy is no longer under the copyright law.

27 F. at 923, 925. *Accord Harrison v. Maynard, Merrill & Co.*, 61 F. 689 (2d Cir. 1894).[7]

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[7] The following English cases, discussed in *Henry Bill Publishing Co.*, 27 F. at 923-24, reached the same conclusion: *Murray v. Heath*, 1 Barn. & Adol. 804 (an owner of a genuine copy not liable under copyright statute for breaching agreement not to sell that copy); *Taylor v. Pillow*, 7 Eq. Cas. 418 (same); *Howitt v. Hall*, 10 Wkly. Rep. 381 (an exclusive licensee after his license terminated had the power to sell copies he had made during the license term). *See also Clemens v. Estes*, 22 F. 899, 900 (D. Mass. 1885); *Doan v. American Book Co.*, 105 F. 772, 776 (7th Cir. 1901); *Kipling v. G.P. Putnam's Sons*, 120 F. 631, 634 (2d Cir. 1903); *Bobbs-Merrill Co. v. Snellenburg*, 131 F. 530, 532 (E.D. Pa. 1904) ("the right to restrain the sale of a particular copy of the book . . . has gone when the owner of the copyright and of that particular copy has parted with all his title to it. . . .")

In *Bobbs-Merrill Company v. Straus*, 210 U.S. 339 (1908), this Court held that Congress had not intended to give copyright owners the power to restrain the resale prices of downstream purchasers, and that normal rules of sales law still applied:

> It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition.

Id. at 350. The cases preceding the 1976 enactment of the current Copyright Act similarly reaffirmed that the first sale doctrine is intended to avoid restraints on the alienation of copies in the hands of subsequent purchasers. *See RCA Mfg. Co. v. Whiteman*, 114 F.2d 86, 88, 89 (2d Cir. 1940) (L. Hand); *Independent News Co. v. Williams*, 293 F.2d 510, 517 (3d Cir. 1961) ("where the publisher has parted with the title to the copyrighted work and despite the fact that as between the immediate parties there is a contractual restriction on its use, this restriction does not bar subsequent purchasers from vending . . . free of the restriction"); *Burke & Van Heusen v. Arrow Drug, Inc.*, 233 F. Supp. 881, 882-83 (E.D. Pa. 1964); *C.M. Paula Company v. Logan*, 355 F.Supp. 189, 191 (N.D. Tex. 1973) (upon sale, "the policy favoring a copyright monopoly for authors gives way to the policy opposing . . . restraints on alienation").

Congress reaffirmed this policy when it enacted Section 109(a). In discussing Section 109(a), the 1976 committee reports observed that "the outright sale of an authorized copy of a book frees it from any copyright control over its resale price or *other conditions of its future distribution.*" House Report No. 94-1476, *supra* at 79

(emphasis added); Senate Report No. 94-473, 94th Cong. 1st Sess. 71 (same). Then in 1984, in connection with the amending of Section 109 to exempt from the first-sale doctrine the leasing of sound recordings, *see* 17 U.S.C. §109(b), the policy was stated even more directly:

> The first sale doctrine has its roots in the English common law rule against restraints on alienation of property. American courts have affirmed the doctrine and distinguished between the owner's exclusive rights in the copyright and the rights of the owner of an object embodying a work that is under copyright.

House Report No. 987, 98th Cong. 2d Sess. 2 (1984), citing Chafee, *Equitable Servitudes on Chattels*, 41 Harv.L. Rev. 945, 982 (1928); *Bobbs-Merrill Co. v. Straus, supra; Harrison v. Maynard, Merrill & Co., supra.*

2. The courts have long applied these principles to foreign sales, in situations similar to our Case 1 scenario. In particular, patent decisions have taken an international approach to the policy against restraints on alienation.[8]

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[8] Patent law may be considered in copyright cases "because of the historic kinship between patent law and copyright law." *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984). Also, copyright law developed a first sale doctrine in tandem with patent law. *See Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456, (1873) (after being sold, a patented object "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees"); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852) (when a patented machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. . . . And if [the inventor's] right to the implement or machine is infringed, he must seek redress in the courts of the State, according to the laws of the State and not . . . under the law of Congress granting the patent").

In *Holiday v. Mattheson*, 24 F. 185 (C.C.N.Y. 1885), a U.S. patent holder sold a patented article in England and then tried to enjoin resale in the United States. The court held that where there was such an unrestricted foreign sale by the U.S. patent owner, "the purchaser acquires the whole right of the vendor in the thing sold: the right to use it, to repair it, and to sell it to others. . . ." The Second Circuit adopted the same view in *Curtiss Aeroplane & M. Corp. v. United Aircraft E. Corp.*, 266 F. 71 (2d Cir. 1920), where an owner of both U.S. and foreign patents sold a Canadian-made airplane to the British government and then sued a downstream purchaser who had brought the airplane to the United States:

> If a patentee or his assignee sells a patented article, that article is freed from the monopoly of any patents which the vendor may possess. . . . If the vendor's patent monopoly consists of foreign and domestic patents, the sale frees the article from the monopoly of both his foreign and his domestic patents, and where there is no restriction in the contract of sale the purchaser acquired the complete title and full right to use and sell the article *in any and every country*.

Id. at 78 (emphasis added). *See Seiko v. Refac Technology*, 9 U.S.P.Q. 2d 1046, 1049 (S.D.N.Y. 1988) (a sale ends the patent owner's right in the patented object, "even if that sale takes place abroad").

Where a copyright owner like L'anza has chosen to retain the entire worldwide bundle of rights for itself, it has the right both to make copies and to sell them everywhere. Because L'anza has these rights in both the United States and the United Kingdom, a sale in either country frees the particular copy sold of the copyright monopoly

(*i.e.*, of the exclusive distribution right), and deprives L'anza of the ability later to invoke copyright law to restrain a subsequent alienation of that copy.

In essence, Section 109(a) does not depend on an exercise of the distribution right in the United States. Instead, it protects all subsequent "owners" of any copies "lawfully made under this title." Its purpose was not to ensure that U.S. copyright owners actually exercised a distribution right within the United States, but to preclude restraints on alienation at least as to copies the U.S. copyright owner itself has made and sold.

3. Had L'anza chosen the Case 2 path and transferred some of its foreign rights, the result would appear to be different if the goods had been made and sold by the foreign assignee or licensee. This Court addressed such a scenario in the patent context, in *Boesch v. Graff*, 133 U.S. 697 (1890). There, U.S. and German rights were divided between two owners: Graff held the U.S. rights and an individual named Hecht owned the German rights. A dealer in the United States bought a burner made and sold by Hecht under the German patent. The Court ruled that the first sale by the German owner could not defeat rights of the separate U.S. owner:

> The right which Hecht had to make and sell the burners in Germany was allowed him under the laws of that country, and purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent.

Id. at 703. *Accord Griffin v. Keystone Mushroom Farm, Inc.*, 453 F.Supp. 1283 (E.D. Pa. 1978) (sale by an exclusive licensee of Italian rights of a product the licensee made in Italy did not release the product from the U.S. patent monopoly); *cf. Sanofi, S.A. v. Med-Tech Veterin-*

arian Products, 565 F. Supp. 931 (D.N.J. 1983) (first sale abroad by an owner of both the French and U.S. patents did not preclude an exclusive licensee of all U.S. rights from enjoining subsequent U.S. sales). These decisions suggest that if L'anza had decided to exploit its copyright internationally by an absolute assignment or exclusive license of its foreign rights, and if the imports at issue had been made and previously sold by an independent foreign owner or licensee rather than L'anza itself, the first sale doctrine might not defeat the Section 106 distribution right – or, therefore, a claim under Section 602(a).

Here, however, L'anza kept all rights. It made the copies. Those copies, "lawfully made under this title," 17 U.S.C. §109(a), were sold by L'anza itself. Both the language and policy of Section 109(a) have a single thrust: L'anza's own sales of goods L'anza itself made, cut off (for those goods) the Section 106 exclusive distribution right on which any Section 602(a) claim depends. L'anza cannot afterwards restrain distribution of those same copies.

C. Operative Acts By The U.S. Copyright Owner In Foreign Nations Affect Rights Under A U.S. Copyright.

The district court concluded that a sale intended for a foreign market should be deemed to have occurred abroad, and that Section 109(a) could not cut off rights under Section 602(a) where a foreign sale preceded importation._ Petition at B5-B6 and n.5. The district court was incorrect.[9] Any prior sale by a U.S. copyright owner should be viewed as an "operative act" which, even

[9]The Ninth Circuit itself declined to follow the district court's "place of sale" rationale. Petition at A8-A9.

if it occurs abroad, has legal consequences under the Copyright Act.

Although it is sometimes loosely said that the Copyright Act does not have extraterritorial effect, this has generally been understood to mean that the Act does not punish infringements that occur entirely outside the United States. *See Subafilms Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1093 (9th Cir.) (*en banc*), *cert. denied*, ___ U.S. ___ , 114 S.Ct. 512 (1994). This case, however, does not involve a claim that Congress has attempted to "enforce its laws beyond the territorial boundaries of the United States." *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991). Instead, this case involves a commercial transaction originating within the United States and directed to a foreign country, which has *legal significance* for enforcement within the United States. In fact, even if the L'anza products had been made abroad and even if the sales had occurred entirely abroad, they would still be among those "operative acts" occurring in a foreign country that affect rights under a U.S. copyright.

The Copyright Act mentions several such foreign operative acts. As noted, Section 104 confers "protection" under the U.S. Copyright Act where works are published in foreign nations that are parties to the Berne Convention, the Universal Copyright Convention, or some other "copyright treaty," or where the President finds that the foreign nation grants reciprocal copyright protection for U.S. works. 17 U.S.C. §104(b). Other parts of the Copyright Act that refer to foreign operative acts include provisions on:

- Transfers of copyright ownership "executed in a foreign country," 17 U.S.C. §204(b)(2);

- Priorities between conflicting transfers of copyright ownership executed "outside the United States," 17 U.S.C. §205(d);
- The placing of copyright notices on works "published in the United States or elsewhere," 17 U.S.C. §401(a), 402(a);
- The exemption for "Berne Convention works whose country of origin is not the United States" from the requirement that a copyright be registered before commencing an infringement action in a U.S. court, 17 U.S.C. §411(a).

Conversely, Section 201(c) prevents some foreign acts from having the effect of transferring or extinguishing rights under a U.S. copyright:

> [S]ubsection (e) would protect foreign authors against laws and decrees that would divest them of their rights under the United States Copyright Act. It would protect authors within the foreign country who choose to resist such covert pressures.

Senate Rep. No. 94-473, *supra* at 107.

By the same token, Congress did not attempt to legislate every transaction or occurrence in a foreign country that would have legal significance within the United States. For example, a U.S. copyright owner, while residing abroad, may certainly authorize the publication of a book or the performance of a play in the United States. Or, from a foreign base, an author or his or her heirs may terminate transfers and licenses of U.S. rights to others. *See* 17 U.S.C. §203(a) and (b)(5). We have seen that copies made abroad for the U.S. copyright owner are "lawfully made under this title" for purposes of Section 109(a). *Denbicare*, 84 F.3d at 1149-50. A foreign owner of a U.S. copyright can even authorize, from abroad, imports into the United States where that owner has not

itself made a first sale of a particular copy. *See Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corporation*, 97 F.3d 377 (9th Cir. 1996) (authority implied from the foreign owner's license agreements with other foreign companies).

A first sale by the copyright owner is also such an operative act that may occur abroad. As discussed above, the policy against restraints on alienation of goods is at the root of Section 109(a), and it applies whether a U.S. patent or copyright owner has sold its goods in its home market or abroad. *Supra* at 12-17. In the Case 1 scenario, if L'anza's sale of hair products with copyrighted labels occurs in the U.S., in Europe or in transit, the answer is the same. Section 109(a) prevents L'anza from restraining downstream alienation of those particular copies that are "lawfully made under this title" and that L'anza itself has already once sold – and, thus, it cuts off L'anza's "exclusive right to distribute [these] copies . . . under section 106," 17 U.S.C. §602(a).

II.
IMPOSING LIABILITY WOULD VITIATE THE "GOOD FAITH PURCHASER" RULE, IN WAYS CONGRESS COULD NOT HAVE INTENDED.

Should the Court decide, however, that Section 602(a) applies in Case 1, the zone of liability should be limited to those engaged in the sole act proscribed by that section, "importation." For purposes of Section 602(a), Section 501 only provides a right of action against, and defines as an infringer, the person "who *imports* copies or phonorecords into the United States in violation of section 602. . . ." 17 U.S.C. §501(a) (emphasis added). Since it does not appear that Quality King was an importer, it

should not have Section 602(a) liability.[10] Any broader reading would create enormous commercial consequences for U.S. retailers and distributors who, today, are being sued under Section 602(a) for selling goods that are genuine but that were not imported with the U.S. copyright owner's consent.

Normally, a downstream merchandiser may rely on the "good-faith purchaser for value" rule when it acquires merchandise for resale. That rule protects the free transferability of all genuine goods. *See* U.C.C. §2-403. It "allows people safely to engage in the purchase and sale of goods without conducting a costly investigation of the conduct and rights of all previous predecessors in the chain of distribution." *Johnson & Johnson Prod. v. Dal Int'l Trading Co.*, 798 F.2d 100, 104 (3d Cir. 1986) (retailer not liable for selling imported gray market goods that others had fraudulently procured).

Congress preserved normal rules relating to the transfer of personal property, both by Section 109(a) and by making clear that ownership of rights under a copyright is "distinct from ownership of any material object in which the work is embodied." 17 U.S.C. §202. In giving copyright owners a Section 602 remedy that expressly covers only the act of "importation," Congress expressed no intent to sanction merchants who subsequently deal in imported objects with copyrighted labels. Indeed, a contrary interpretation would saddle retailers with a risk of

[10]The district court found that Quality King purchased the L'anza products after they had been imported: "[The products] were imported into the United States where they passed through the stream of commerce until they were purchased by Quality King in the ordinary course of its business." Petition at B3. The court of appeals *incorrectly* stated (without citation to the record) that Quality King imported the products. Petition at A2, A3.

voidable titles to their inventory of such goods purchased from anyone other than the U.S. copyright owner – a risk the good faith purchaser rule is supposed to avoid:

> [T]he law of voidable title [is] a centuries-old concept now codified in 49 States as part of their adoption of the Uniform Commercial Code. . . . The primary rules of voidable title are manageable and few in number. The first is that one who purchases property in good faith and for value from the holder of voidable title obtains good title. The second rule, reciprocal to the first, is that one who acquires property from a holder of voidable title other than by a good faith purchase for value obtains nothing beyond what the transferor held. The third rule is that a transferee who acquires property from a good faith purchaser for value or one of his lawful successors obtains good title, even if the transferee did not pay value or act in good faith.

United States v. 92 Buena Vista Ave., Rumson, 507 U.S. 111, 142 (1993) (Kennedy, J., dissenting) (citations omitted). Of even more concern, retailers deprived of the good faith purchaser rule for imported products with copyrighted labels would be subjected to the Copyright Act's "potent arsenal of remedies." *Sony Corp.*, 464 U.S. at 433.

The lower courts have indirectly carved out limited exceptions to the good faith purchaser rule for goods that are counterfeit or that are not genuine because they misappropriate intellectual property. See *Stabilisierungsfonds Fur Wein v. Kaiser Stuhl Wine Distributors PTY, Ltd.*, 647 F.2d 200, 207-08 (D.C. Cir. 1981) (product label alleged to have misappropriated a common law trademark); *Ford Motor Company v. B & H Supply, Inc.*, 646 F. Supp. 975 (D. Minn. 1986) (a third party's auto parts were sold in counterfeit Ford packaging). This line

of decision has never subjected merchants to liability for selling genuine products made and originally sold by the intellectual property owner itself.

The Ninth Circuit's decision in this case, however, has punched two new holes in the good-faith purchaser shield. First, it imposes Copyright Act liability on merchants if it turns out that genuine goods with copyrighted labels, once distributed by the U.S. copyright owner, were subsequently imported without the copyright owner's permission. Although the good faith purchaser rules should have obviated the need to investigate the chain of title to the L'anza shampoo at issue, even an investigation of the goods in this case would not necessarily have helped. A merchant would have discovered that the goods here were made in the U.S.A., by L'anza, the U.S. manufacturer and U.S. copyright owner. Yet, the Ninth Circuit's approach imposes liability if the complete provenance of the goods is not discovered.

Second, the Ninth Circuit imposes liability on merchants if, somewhere upstream, the copyright owner did not reap the full reward it might have earned. This "full value" rule would require retailers to conduct a pricing investigation before buying a product from a jobber or independent distributor. If the product bears a copyrighted design on its label, the Ninth Circuit tells retailers that they must ask their suppliers what price the copyright owner received on a transaction somewhere upstream – and then somehow determine how that price compares with the potential price the copyright owner might have charged.

The eventual effect of either prong of the Ninth Circuit's assault is evident: there will be fewer (or more costly) purchases of copyrighted goods from *independent* jobbers and traders. As a result, retailers may also

find it more difficult to turn to these jobbers and traders to buy their excess inventories at the end of a season, or when a store wishes to make room for new merchandise. Put another way, the Ninth Circuit's decision in this case creates strong incentives to deal directly with the copyright owner and to eschew the same products when offered by trading companies, jobbers or distributors like petitioner. Inevitably, this will affect supply conditions in secondary markets for goods, and increase prices: with less supply and competition from secondary sources, prices must rise.[11]

Imposing liability in this case would also produce commercially inexplicable results. A retailer could end up with two identical bottles of L'anza shampoo on its shelves, each with a copyrighted label and each manufactured and previously sold by L'anza, the U.S. copyright owner. If one of the bottles had been previously exported but the second bottle had only been sold domestically, the retailer would be liable for selling the former but not the latter. Unless it is given some accurate means of distinguishing the two (such as lot numbers and data on where individual lots were sold), the retailer sells both bottles at its peril. This is precisely the type of burden

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[11] The Court has invoked national policy favoring competition to limit overly broad claims under both the copyright and patent laws. A court may not "enlarge the scope of respondents' statutory monopolies . . . beyond the limits of the grants authorized by Congress." *Sony*, 464 U.S. at 421 (copyright). "[T]his Nation's historical antipathy to monopoly and of repeated congressional efforts to preserve and foster competition" are grounds not to "expand patent rights." *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 530-31 (1972) (patent). Statutory monopolies under the patent and copyright laws should be "strictly construed." *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964).

that both the good faith purchaser rule, and the first sale doctrine, were intended to avoid.

These are not theoretical concerns. Almost *any* consumer product is capable of including a label with some copyrighted design element. Most retailers vary their inventory and purchase from distributors or jobbers who are not the U.S. copyright owner. In today's international economy, where goods are purchased from multiple sources and distributed in free trade areas pursuant to treaties like NAFTA, it will not be uncommon for retailers to purchase imported products where the U.S. copyright owner or its designee is not the importer. Being sued for selling such genuine merchandise *will* burden commerce, affect prices, and create the problems of source identification that we have discussed.

Nowhere has Congress expressed any intent to impose these anti-commercial and anti-consumer results, or to do away with established rules that encourage the free transferability of goods. To the contrary, as discussed earlier (*supra* at 12-15), Congress' perpetuation of the first sale doctrine was intended to avoid such restraints on the free alienation of genuine products. In sum, if the Court believes Section 602(a) may be violated by the act of "importation" in the Case 1 scenario, which we dispute, it should make clear that liability cannot extend to non-importing merchants that are good faith purchasers.

CONCLUSION

For the above reasons, the judgment of the court of appeals should be reversed, and the case remanded with a direction to enter judgment for petitioner.

RESPECTFULLY SUBMITTED, this 6th day of August, 1997.

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ABC Stores Div. MNS Ltd.
Albertson's, Inc.
American Drug Stores, Inc.
Andorra Neighborhood Pharmacies
Arbor Drugs, Inc.
Ark Drugs
The Arrow Corporation/Arrow Prescription Centers
Arthur Drug Stores Inc.
The Bartell Drug Company
Brooks Pharmacy
Buffalo Pharmacies
CRX Pharmacy
CVS Pharmacy, Inc.
Carr Gottstein Foods Company
City Drug Stores Inc.
City Drugs
Cobom's, Incorporated
Concord Drugs, Inc.
Costco Wholesale
D & W Food Centers, Inc.
Davidson Drugs, Inc.
Discount Drug Mart, Inc.
Downeast Pharmacy, Inc.
Drug Emporium, Inc.
Drug Fair Stores of NJ
Drug World Pharmacies
Drugtown Drugstores
Duane Reade
Eckerd Corporation

Emm-Dee Drug Corporation
Farmacias El Amal
Fedco Professional Pharmacies
Fedco, Inc.
Fred's Inc.
FreeCorp Peabody dba Freedom Drug
Fruth Pharmacy
Genovese Drug Stores, Inc.
Giant Eagle, Inc.
Giant Food Inc., Pharmacy Div. Giant Discount Drug
Grand Union Company
The Great Atlantic & Pacific Tea Co., Inc.
(A&P Supermarket)
Gresham Drugs, Inc.
H-E-B Foods/Drugs Inc.
Hannaford Bros., Co.
Happy Harry's Discount Drugs
Harco Drug, Inc.
Harmon Discount Stores
Hartig Drug Stores
Health Care Professionals
Hi-School Pharmacy, Inc.
Horton and Converse Pharmacies
K&B Services, Incorporated
Keitsch Bros. Inc.
Keystone - Medicine Chest Pharmacies
Kinney Drugs, Inc.
Kmart Corporation
Knight Drugs Inc.
Kopp Drug, Inc.
The Kroger Co.
Lewis Drugs, Inc.
Longs Drug Stores
Marc Glassman Inc.
Marah Drug Stores, Inc.

May's Drug Stores, Inc.
McKay Drugs
Med-X Corporation
Medic Drug
Medicap Pharmacies, Inc.
Medicine Shoppe International, Inc.
Meijer, Inc.
Monahan Pharmacy Inc.
Navarro Discount Pharmacies
NeighborCare Pharmacies
Nelson's Drug Stores
Nortex Drug Distributors Inc.
dba Drug Emporium
Osborn Drugs, Inc.
Owl Drug Stores Inc.
Parkway Drugs
Pathmark Stores, Inc.
Pelton's Drug Stores
The Penn Traffic Company
Phar-Mor, Inc.
Pharmhouse Corp.
Price-Less Drug Stores, Inc.
Publix Super Markets, Inc.
Quick Chek Food & Pharmacy
Randalls Food & Drugs, Inc.
Retired Persons Services, Inc.
Revco D.S., Inc.
Ricky's
Rite Aid Corporation
Ritzman Pharmacies, Inc.
Rock Bottom Stores, Inc.
Rx Plus
RxD Pharmacies Inc.
Safeway Inc.
Sav-Mor Drug Stores

Sav-On Drugs
Savco Drugs, Inc.
Save Mart Supermarkets
Seaway Food Town, Inc.
Service Discount Food & Drugs Inc.
Shaw's Supermarkets
Shelly's Pharmacy, Inc.
Shopko Stores, Inc.
Smith's Food and Drug Centers
Snyder's Drug Stores, Inc.
Star Markets Company, Inc.
The Stop & Shop Supermarket Company
Super D Drugs Inc.
Super Save Drugs, Inc./Owl Pharmacies
SUPERVALU Pharmacies, Inc.
Target Stores, a div. of Dayton Hudson Corp.
Thriftway Drugs
Thrifty White Stores
TOPS MARKETS, INC.
USA Drug
Valco Drug Stores
The Vons Companies, Inc.
Wakefern Food Corp./ShopRite
Wal-Mart Stores, Inc.
Walgreen Co.
Weatherwax Drug Stores
L.F. Widmann, Inc.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,

Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF AMICUS CURIAE JAN-BELL MARKETING, INC. IN SUPPORT OF PETITIONER

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INTEREST OF AMICUS CURIAE

Jan-Bell Marketing, Inc. ("Jan-Bell") files this amicus curiae brief with the written consent of petitioner and respondent. Consent has been filed with the Clerk of the Court.

Jan-Bell provides fine jewelry, watches and certain other consumer products to the value conscious consumer. Jan-Bell principally markets its products through exclusively leased departments in Sam's Clubs across the United States. Sam's Club, a division of Wal-Mart, Inc., is a warehouse membership club. Warehouse membership clubs offer a variety of product categories to targeted customers. By limiting the assortment in each product category and operating on a "no frills" basis, warehouse membership clubs generally provide name-brand products at prices significantly below conventional retailers and department, discount and catalog stores.

Jan-Bell, like other retailers both large and small, frequently purchases genuine brand name goods from independent distributors, wholesalers and middlemen located in the United States. Certain of these goods sold by Jan-Bell are subject to the United States Copyright Act. Since 1995, Jan-Bell has been a party to four lawsuits in which copyright owners alleged that Jan-Bell's sales of genuine goods violate section 106(3) and/or 602(a) of the Copyright Act.[1]

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[1] *Enesco Corp. and Precious Moments, Inc. v. Jan-Bell Marketing, Inc.*, Civil Action No. 96 C 3842 (N.D. Ill.); *Jan-Bell Marketing, Inc. v. Disenos Artisticos E Industriales, Inc.*, Civil Action No. 95-7124-Civ. (S.D. Fla.); *Department 56, Inc. v. Jan-Bell Marketing, Inc.*, Civil Action No. 95 CV 9327 (S.D.N.Y.); *Precious Moments, Inc. v. Jan-Bell Marketing, Inc.*, Civil Action No. 94 C 5553 (N.D. Ill.)

Pursuant to Rule 37.6, counsel for Jan-Bell Marketing, Inc. authored this amicus brief in whole, and no other entity made monetary contributions to the preparation or submission of this brief.

The Ninth Circuit's decision fails to address the impact of its interpretation of the Copyright Act on United States retailers such as Jan-Bell which purchase genuine goods in the United States. If the decision stands, retailers may be stripped of their vested property interests in their inventory of certain genuine goods purchased through established channels of commerce in the United States because, unbeknownst to them, the goods had been imported by another participant in the distribution chain several transactions before the retailers acquired the goods. Retailers will be effectively foreclosed from purchasing genuine brand-name goods from any independent distributor, wholesaler, or middleman in the future out of fear that such a purchase would put the retailer in jeopardy of falling victim to the potent arsenal of remedies available under the Act. This contraction in the supply of genuine goods inevitably will lead to increased prices and may preclude Jan-Bell and other lower-price retailers from making available genuine goods to United States consumers at value prices.

SUMMARY OF ARGUMENT

The sale of copyrighted goods implicates two distinct property interests, the copyright owner's right to control the initial disposition of the goods granted by the Copyright Act and the tangible goods themselves, which are not and never have been subject to the Act. The Copyright Act strikes a careful balance between those two property interests. The Ninth Circuit's opinion upsets that balance.

The sale of a copyrighted good splits the two interests in the good. Once the copyright owner receives a reward

for the creative work embodied in a tangible good, the copyright owner's right to control the further disposition of that good gives way to the personal property rights of the purchaser of that good. The Copyright Act does not empower a copyright owner, having already received a reward for his creative work, to reclaim an interest in the good. This is the essence of the "first sale doctrine" in 17 U.S.C. § 109(a) and it applies regardless of whether the "first sale" occurred in the United States or abroad.

The first sale doctrine plays an indispensable role in commerce. It allows merchants to buy and sell goods without fear that the goods are subject to some hidden restraint on their alienation. The importance of this doctrine, however, is a direct function of its certainty. The erosion of the certainty provided by the first sale doctrine will force competitors out of the marketplace and artificially extend the limited monopoly of copyright owners beyond the purpose and language of the Copyright Act.

ARGUMENT

I. THE FIRST SALE DOCTRINE PROTECTS SUBSEQUENT PURCHASERS OF PERSONAL PROPERTY CONTAINING COPYRIGHTED ELEMENTS ONCE THE COPYRIGHT OWNER ALREADY HAS BEEN REWARDED FOR THE COPYRIGHT OWNER'S CREATIVE WORK.

A good that embodies some attribute subject to the Copyright Act is comprised of two categories of property interests: (1) the "bundle" of copyrights owned by the copyright holder and (2) the personal property rights of the owner of the good. *See* 17 U.S.C. § 202 ("Ownership of a copyright, or of any of the exclusive rights under a

copyright, is distinct from ownership of any material object in which the work is embodied.")

This case involves the relationship between these two distinct interests. Initially, both interests typically are owned by the same person, namely the copyright owner or, perhaps, the copyright owner's licensee or assignee.[2] The sale of the copyrighted good, however, results in a "splitting" or separation of these property interests: the copyright owner retains the copyright interest and the purchaser receives the personal property interest. This is because the sale of a copyrighted good transfers the personal property interest in the good to the purchaser but does not transfer the copyright interest. 17 U.S.C. § 202.

The particular copyright interest in question here is the copyright owner's "exclusive right[ ] . . . to distribute copies or phonorecords of the copyrighted work to the public . . . ." 17 U.S.C. § 106(3). The distribution right, known as the "right to vend" under prior copyright statutes, includes the right to block unauthorized importation of copyrighted goods into the United States. 17 U.S.C. § 602(a).

The distribution right differs somewhat from the other rights granted in section 106 in that the other rights involve unauthorized "copying" in the broad sense. 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12 [A] at p. 8-142; *see Bobbs-Merrill Co. v.*

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[2] If the original copyright holder assigns or licenses any or all of the "bundle" of copyrights to another party, that other party becomes the "copyright owner" for purposes of the rights assigned or licensed. 17 U.S.C. § 101.

Straus, 210 U.S. 339, 347 (1908) ("[I]t is evident that to secure the author the right to multiply copies of his work may be said to have been the main purpose of the copyright statutes."). The distribution right supplements the prohibition against copying to allow the copyright owner to prevent the dissemination of even authorized copies of a work to the public without the copyright owner's consent. *See generally Bobbs-Merrill, supra*, 210 U.S. at 351; *Blazon, Inc. v. DeLuxe Game Corp.*, 268 F. Supp. 416, 434 (S.D.N.Y. 1965); *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 883 (E.D. Pa. 1964).

Read in a vacuum, this "exclusive right to distribute" would seemingly allow a copyright owner to restrain the disposition of the personal property interest by dictating the terms of all subsequent transfers of the good. But this right has never been given such a sweeping construction. As this Court has long recognized, the copyright statutes do not permit the copyright owner to restrain "the subsequent alienation of the subject-matter of copyright after the owner [has] parted with the title to one who [has] acquired full dominion over it and [has] given a satisfactory price for it." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (interpreting the "right to vend" under the 1901 Act).

Congress codified this limitation on the copyright owner's ability to control the disposition of a good in section 109(a) of the Copyright Act. 17 U.S.C. § 109(a). Section 109(a), commonly known as the "first sale doctrine," provides that the "owner of a particular copy . . . lawfully made under [the Act]" is entitled to dispose of that copy "without the authority of the copyright owner" notwithstanding the distribution right in section 106(3).

Id.[3] "Section 109(a) is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in the material." *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 159 (CA3 1984). *See also United States v. Wise*, 550 F.2d 1180, 1187 n. 9 (CA9 1977) (right to vend the transferred copy rests with vendee because copyright is distinct from property which is copyrighted).

A. The Purpose Of The Copyright Act Is Fulfilled Once The Copyright Owner Is Compensated For His Or Her Creative Work.

The well-recognized goal of the Copyright Act is "to stimulate artistic creativity for the general public good." *Sony Corporation of Amer. v. Universal City Studios, Inc.*, 464 U.S. 417, 432 (1984). This goal is achieved by granting the author a "limited monopoly" which ensures that the author of a copyrighted work "secure[s] a fair return for [the] author's creative labor." *Id.* The Copyright Act is not designed to ensure that the copyright owner receives commercial success. *See id.* at 429. ("The monopoly privileges that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit.").

As applied to the distribution right, the goal of the Copyright Act is satisfied by allowing the copyright owner the right to control the "first sale" of a good there-

[3] It is irrelevant under section 109(a) whether the disposition of the good was made by the copyright owner or its licensee so long as the licensee is "the owner of [the] particular copy" which is sold. 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[B][3][C] at pp. 8-157 to 158 (1996).

by ensuring that the copyright owner receives a "fair return" for the *creative work* embodied in the good:

> [The rationale for the right to vend] becomes inapplicable in the situation where the copyright owner first consents to the sale or other disposition of copies of his work. In such circumstances the copyright owner wishes still to prevent unauthorized copying, but it is no longer for the purpose of preventing distribution of the copies which he has released into the public channels [because he has already] consented to such disposition of his work. Therefore the right to prevent unauthorized vending at that point (although still no doubt desired by the copyright owner) is no longer a necessary supplement for the purpose above described. In such circumstances, continued control over the vending of copies is not so much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property which embodies the copyrighted work. Therefore, at this point the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and to restraints on alienation.

C.M. Paula Co. v. Logan, 355 F. Supp. 189, 191 (N.D. Tex. 1973).

This crucial distinction between the copyright owner's right to control the initial disposition of the good, on the one hand, and the purchaser's right to control the subsequent alienation of the personal property, on the other, applies with equal force to the statutory kin of the distribution right, the right to block importation in section 602(a):

> Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies

> who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive a "more adequate reward" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Sebastian International, Inc. v. Consumer Contacts (PTY), Ltd., 847 F.2d 1093, 1099 (CA3 1988).

Once the copyright owner receives a "reward for his work," the purpose of the Copyright Act is satisfied. The copyright owner's right to control the disposition of the good is extinguished and the good becomes nothing more than an article of personal property which is freely transferable in the stream of commerce.[4] 17 U.S.C. § 109(a). The copyright owner cannot again reclaim control over the disposition of the personal property as against subsequent purchasers of the good and extract some commercial benefit wholly separate from the reward for the creative work which the copyright owner already received.

B. The Elimination of the First Sale Doctrine In The Importation Context Would Divest Subsequent Purchasers of Their Personal Property Interest In Copyrighted Goods Purchased In Good Faith.

Having purchased title to a copyrighted good, a purchaser is "endowed with the ordinary incidents of own-

[4] The copyright owner, of course, retains his other copyright interests, such as the exclusive right of reproduction, which ensure that the copyright owner receives a fair return for other uses of the *creative work*.

ership, including the right of alienation." *United States v. Wise*, 550 F.2d 1180, 1187 n. 9 (CA9 1977). *See also Harrison v. Maynard, Merrill & Co.*, 61 F. 689, 691 (CA2 1894) (purchaser of particular copy gains "ordinary incidents of ownership in personal property, among which is the right of alienation"). The Ninth Circuit's decision strips subsequent purchasers of imported goods of their personal property interest in copyrighted goods as well as the purchaser's right of alienation. *See* 17 U.S.C. § 503(a) (authorizing a court to impound "all copies or phonorecords claimed to have been made or used in violation of the copyright owner's exclusive rights").

The Court should not infer such a fundamental restriction on a purchaser's property rights absent a clear and unambiguous direction from Congress. *See Public Utility Dist. No. 1 v. City of Seattle*, 382 F.2d 666, 670 (CA9 1967) ("Unless the legislative intent is clear, courts should be slow to adopt a construction the effect of which is a destruction of property rights . . . ."). Here, the Ninth Circuit relied on two snippets of legislative history. *L'anza Research International, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109, 1116 (CA9 1996). Worse yet, these snippets were not the remarks of legislators, but of a "publisher" and a "music industry representative" who plainly represented their own interests—not those of Congress. *Id.* This is hardly the type of clear and unambiguous direction sufficient to divest purchasers across the United States of title to billions of dollars of genuine goods. *See Kelly v. Robinson*, 479 U.S. 36, 51 n. 13 (1986) (declining to accord "any significance" to statements made by individuals who were not members of Congress, or to statements not included in official Senate and House Reports).

II. THE ELIMINATION OF THE FIRST SALE DOCTRINE WITH RESPECT TO IMPORTED GOODS WOULD ARTIFICIALLY EXTEND THE LIMITED MONOPOLY OF THE COPYRIGHT OWNER BY CHILLING LEGITIMATE COMPETITION.

The first sale doctrine ensures the free-flow of goods in commerce without any hidden restraints on alienation. *See Bobbs-Merrill Co.*, 210 U.S. at 350; *Sebastian*, 847 F.2d at 1096. Read in conjunction with its state-law counterpart, the "good faith purchaser for value" rule, these statutes allow purchasers "safely to engage in the purchase and sale of goods without conducting a costly investigation of the conduct and rights of all previous possessors in the chain of distribution." *Johnson & Johnson Prod. v. Dal Int'l Trading Co.*, 798 F.2d 100, 104 (CA3 1986). *See also Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (CA9 1996) (noting the "impracticability of the burden" which would be imposed on a purchaser by requiring the purchaser to determine whether the copyright owner authorized the means of distribution). This fosters competition. *See generally City of Lafayette, LA. v. Louisiana Power & Light Co.*, 435 U.S. 389, 398 (1978) (noting that "Congress [has] sought to establish a regime of competition as the fundamental principle governing commerce in this country") (interpreting the Sherman Act).

A. Limiting The First Sale Doctrine To Non-Imported Goods Means That No Subsequent Purchaser of Goods Can Be Certain Of The Doctrine's Application.

From the perspective of retailers and other subsequent purchasers of goods, the Ninth Circuit's judicially-

created exception to the first sale doctrine for imported goods eviscerates the doctrine as it applies to *all* copyrighted goods. A subsequent purchaser of genuine goods in the United States is unable to discern whether the goods were distributed in the United States (and, therefore, free from restriction under the Copyright Act) or whether the distribution path of those goods took them outside the United States (and, thus, according to the Ninth Circuit, still subject to control by the copyright owner).

A subsequent purchaser cannot determine the distribution history of goods by inspecting the goods. Copyright owners do not visibly distinguish goods first sold in the United States from those first sold outside the United States. To the contrary, copyright owners often "mark" goods destined for foreign markets with secret codes in an effort to trap unknowing subsequent purchasers when they acquire goods imported by others. The goods themselves are identical from all outward appearances.

And, to suggest, as some copyright owners have, that a subsequent purchaser need only contact the copyright owner for distribution information ignores the business realities of the market place. *See, e.g., Disenos Artisticos E Indus. v. Costco Wholesale*, 97 F.3d 377, 380 (CA9 1996) (noting copyright owner's argument that subsequent purchasers should obtain certification from copyright owner that importation of goods purchased was authorized). The reason that copyright owners endeavor to reclaim the distribution right in the first place is to prevent subsequent purchasers from reselling genuine goods (typically at lower prices). A copyright owner will not voluntarily provide information to a retailer or other

subsequent purchaser which will foster the very competition which the copyright owner is trying to stifle.[5]

As another panel of the Ninth Circuit explained in a recent case, if the first sale doctrine is limited only to non-imported goods,

> every little gift shop owner in America would be subject to copyright penalties for genuine goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back.

Disenos Artisticos E Industriales, S.A., supra, 97 F.3d at 380. The Ninth Circuit's "exception," in short, swallows the "rule" and renders it meaningless as an agent of commercial certainty.

B. Section 602(a) Is Not Rendered Meaningless By Application Of The First Sale Doctrine To Imported Goods.

Section 602(a), in contrast, would not be rendered meaningless by applying the first sale doctrine as the

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[5] Any inquiry concerning the distribution chain will require verification from the copyright owner. A subsequent purchaser cannot verify the distribution chain by making inquiries of the immediate seller of the goods. Goods typically pass through many different hands in the stream of commerce from the point of manufacture to the point of sale to consumers at the retail level. The immediate seller of a good to a retailer cannot verify the conduct of the participants in the distribution chain which are two, three, four or more steps removed from the immediate transaction. Moreover, even assuming that a remote purchaser could trace a particular good through the distribution chain, the last link in the chain always would be the initial sale of the good by the copyright owner.

Ninth Circuit concluded erroneously. *See L'anza, supra,* 98 F.3d at 1114. Section 602(a), by its very terms, allows the copyright owner to establish a violation of the distribution right in the importation context by merely showing that a purchaser engaged in the act of "[i]mportation"—that is, the purchase of goods from a foreign source. *See* 17 U.S.C. § 602(a)(2) (excluding "importation, for the private use of the importer and not for distribution . . ."). A sale is not required. In contrast, infringement of the distribution right in section 106(3) typically requires that the purchaser actually disseminate copies to the public. *National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426, 434 (CA8 1993), *cert. denied*, 114 S. Ct. 176 (1993); *Foreign & Domestic Music Corp. v. Licht*, 196 F.2d 627, 629 (CA2 1952) (holding that only the seller and not the buyer, is liable for the infringement of the right to vend under the 1909 Act). Section 602(a), therefore, allows a copyright owner under the appropriate circumstances to stop the dissemination of imported goods before the goods are put into the stream of commerce.

C. The Ninth Circuit's Decision Would Improperly Cause The Judicial Extension Of The Copyright Act's Limited Monopoly.

The uncertainty engendered by the Ninth Circuit's limitation on the first sale doctrine will upset the careful balance between the copyright owner's "interest [ ] in the control and exploitation" of his or her work, and "society's competing interest in the free flow of ideas, information and commerce." *Sony Corporation of Amer. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984); *cf. Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230

(1964) ("The patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition.") Purchasers of copyrighted goods will be discouraged from buying genuine goods from U.S.-domiciled wholesalers and middlemen out of fear that an inadvertent purchase of imported goods would expose the purchaser to the "potent arsenal of remedies" set forth in the Copyright Act. *Sony Corp. of Amer., supra*, 464 U.S. at 433. This will chill legitimate competition in the sale of goods, effectively expanding the "limited monopoly" of copyright owners. Absent a clear indication from Congress, the Court should not enlarge the statutory protections of the Copyright Act beyond that contemplated by either the language or purpose of the Act. *Sony Corp. of Amer., supra*, 464 U.S. at 431 ("The judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme.")

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted this 6th day of August 1997,

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In The

Supreme Court of the United States

October Term, 1996

QUALITY KING DISTRIBUTORS, INC.,

Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

On Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit

BRIEF OF AFTA, AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

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INTEREST OF THE AMICUS CURIAE[1]

The *amicus* on this brief are as follows:

The American Free Trade Association ("AFTA") is an incorporated trade association of independent American importers, distributors and wholesalers of parallel import fragrances, grooming products and cosmetics. Many of the Association's members are small businesses which are located throughout the United States and which employ hundreds of American citizens.

Parallel imports, sometimes also referred to as "gray market" goods, are genuine trademarked consumer products, such as fragrances, cosmetics, hair care products, body care products, cameras, electronic products and watches, which are typically manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world.

The *amicus* have a vital stake in the outcome of this case, and some of them have filed previous *amicus* briefs on similar issues.[2] The instant challenge is just one prong

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[1] Letters from all parties consenting to the filing of this brief have been filed with the Clerk of this Court. Counsel for a party did not author this brief in whole or in part. No person or entity, other than the Amicus Curiae, its members, or counsel made any monetary contribution to the preparation and submission of this brief.

[2] *K mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 1055 (1986); *Olympus Corp. v. United States*, 792 F.2d 315

of a full-scale attack by some manufacturers who are attempting to eliminate the legitimate and beneficial competition presented by the parallel importation and reimportation of their own products. This is a strategy that has been unsuccessful through the use of trademark and patent rights.

SUMMARY OF THE ARGUMENT

This case involves competing interpretations of the relationship between the first sale doctrine found in 17 U.S.C. § 109 and the import restriction found in 17 U.S.C. § 602. According to the Ninth Circuit below, absent permission of the U.S. copyright holder, the importation and subsequent distribution of foreign bought products bearing a U.S. copyright constitutes infringement, even when the copyright owner itself has already sold the same goods and earned a return on that sale. The Court concluded that the first sale doctrine does not apply to products imported into the United States. In other words, the copyright owner has a complete and absolute right to control importation of products bearing his or her copyright even if he has previously sold the copy of the product, without restriction, and made a profit from the sale.

By contrast, the Third Circuit in *Sebastian Intern. v. Consumer Contacts Ltd., infra,* held that the first sale by a

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(2d Cir. 1986), *cert. denied,* 486 U.S. 1042 (1988); *Bell and Howell: Mimiya Co. v. Masel Supply Co.,* 719 F.2d 42 (2d Cir. 1983), *cert. denied,* 479 U.S. 950 (1987); *Johnson & Johnson Products, Inc. v. DAL International Trading Co.,* 798 F.2d 100 (3d Cir. 1986); *Sebastian Intern. Inc. v. Consumer Contacts Ltd.,* 847 F.2d 1093 (3d Cir. 1988); *Cosmair, Inc. v. Dynamite Enterprises, Inc.,* 226 U.S.P.Q. 334 (S.D. Fla. 1985).

copyright holder extinguishes the copyright regardless of the place of sale. This alternate reading preserves the traditional balance between the copyright holder's right to earn a just return and the policy against unduly restricting free alienation of property.

The legislative history of the Copyright Act, in its various incarnations, shows that Congress was aware of the struggle by the copyright owner to restrict the application of the first sale doctrine and refused to legislate such a right. Moreover, the record reveals an acceptance of the legitimacy of the first sale abroad in extinguishing the rights of the copyright owner.

More broadly, the greater interests of the country are served by rejecting the interpretation rendered by the Ninth Circuit. The application of a design to the packaging of a non-copyrightable product, solely for the purpose of obtaining the monopolistic ability to manipulate prices in different markets and to restrain legitimate competition, constitutes an abuse of the original purpose of the copyright statute. Such a tipping of the scales defeats the traditional balancing of rights encompassed in our copyright laws.

ARGUMENT

I. THE NINTH CIRCUIT'S THEORY.

We come before the Court to resolve the Ninth Circuit's express and direct conflict with the Third Circuit's decision in *Sebastian International, Inc., v. Consumer Contacts, Ltd.,* 847 F.2d 1093 (3d Cir. 1988). The conflict arises from the differing interpretation of the relationship between 17 U.S.C. § 602(a) ("the import restriction") and 17 U.S.C. § 109(a) ("the first sale doctrine"). This difference in the interpretation of these sections has developed

from an inconsistent and often contradictory line of reasoning by the Ninth Circuit.[3]

The first sale doctrine as codified in 17 U.S.C. § 109 states in pertinent part as follows:

> § 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord
> (a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

The import restriction as codified in 17 U.S.C. § 602 states in pertinent part as follows:

> § 602. Infringing importation of copies or phonorecords
> (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

These provisions were first reconciled by the Third Circuit in *Sebastian Int'l, Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093 (1988). Sebastian International, Inc., a California Corporation, marketed and manufactured hair products which displayed on their packaging a registered copyright. Sebastian retained a South African company to act

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[3] *Compare, BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 131 L.Ed.2d 197 (1995); *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996); *Lanza Research International, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109 (9th Cir. 1996).

as sole distributor for the South African market. *Sebastian Int'l, Inc. v. Consumer Contacts Ltd.*, 664 F.Supp. 909 (D.N.J. 1987), *vacated*, 847 F.2d 1093 (3d Cir. 1988). Instead of selling the product exclusively in South Africa, the distributor sold some of the merchandise back into the United States. Sebastian brought suit claiming the reimportation violated § 602. The District Court accepted Sebastian's arguments and granted a preliminary injunction.

On appeal the Third Circuit reversed and remanded the decision. *Sebastian Int'l, Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093 (1988). The Court ruled that § 109(a) and § 602(a) were interdependent and may be read in harmony. The Court focused on the fact that the copyright holder had manufactured and sold the product thereby gaining his just reward in its sale. Furthermore, the Court rejected the claim that the place of the sale was controlling. In doing so, the Court noted, "we do not confront a license agreement or copies produced in a foreign country under that agreement by someone other than the owner" and thus concluded "clearly the copyright owner already has received its reward through the purchase price" *id.* at 1098-99.

The Ninth Circuit first addressed these sections in *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992). In that case, the defendants purchased phonorecords manufactured abroad and imported them into the United States. The U.S. owner of the sound recordings contained on the phonorecords sued under section 602(a). The defendants argued that the first sale doctrine extinguished the copyright holder's rights to the phonorecords. The Ninth Circuit held that the first sale doctrine as codified in section 109(a) was

limited by the phrase "lawfully made under this title" which the Court held meant "legally manufactured and sold within the United States." *BMG Music*, 952 F.2d at 319.[4]

Despite the criticism of legal commentators against the theory set forth in *BMG*, the Ninth Circuit again partially relied on the "lawfully made under this title" argument in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 131 L.Ed.2d 197 (1995). The Court tried to buttress its argument by stating that to rule otherwise would render § 602(a) meaningless.

The Ninth Circuit distanced itself from the earlier theories and broadened its interpretation of § 602(a) in the instant decision. In *Lanza Research International, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109 (9th Cir. 1996), the Ninth Circuit abandoned the reasoning in *BMG* that the first sale applied only to goods made geographically in the United States. Instead, the Court concluded that § 602(a) superceded § 109(a) because, to hold otherwise would defeat congressional intent and render § 602(a) meaningless. In entering this ruling, the Ninth Circuit expressed direct conflict with the ruling in *Sebastian*. In an effort to justify this approach the Ninth Circuit ignored its earlier ruling in *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996), and delved into the adequacy of the reward received by the copyright owner. The Ninth Circuit was wrong in its ruling and in its interpretation of the relevant statutes.

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[4] Section 106 provides that "the owner of copyright under this title" has the exclusive right to reproduce, or to authorize the reproduction, of a copyrighted work. Thus, we agree with Petitioner that "lawfully made under this title" must refer to reproductions made or authorized by the U.S. copyright holder, regardless of where they are manufactured.

II. THE IMPORT RESTRICTION IS NOT APPLICABLE WHERE THE U.S. COPYRIGHT HOLDER HAS EITHER EXERCISED OR AUTHORIZED THE DISTRIBUTION OF THE COPY.

A. The Plain Meaning

It is appropriate to look to the "plain meaning" of a statute in reaching a plausible interpretation of its intended purpose. *United States v. National Bank of Commerce*, 472 U.S. 713 (1985); *United States v. American Trucking Association, Inc.*, 310 U.S. 534, 542 (1940). We believe that the "plain meaning" of § 602 is that in situations such as the instant matter where the copyright holder received its "reward" on its sale of the merchandise, the first sale doctrine codified in § 109(a) *exhausts* the distribution right found in § 602.

In this regard, it is important to understand that in assessing whether the statutory language has a "plain meaning" it is necessary to look at more than just the words themselves. One must consider these words within the structure, logic and purpose of the entire statute of which the relevant language is a part. "We look not only to the relevant language, but to the design of the statute as a whole and to its object and policy." *Spencer v. Brown*, 17 F.3d 368, 372 (Fed. Cir. 1994).

As this Court itself has observed, the function of courts interpreting statutes "is to construe the language so as to give effect to the intent of Congress." *American Trucking Association, Inc.*, 310 U.S. 534, 542 (1940). A very important guide to that intent is an act's "general purpose."

> [C]ourts will construe the details in an act in conformity with its dominating general purpose, will read the text in the light of context and will interpret the text so far as the meaning

> of the words fairly permits so as to carry out in particular cases the generally expressed legislative policy.

SEC v. C.M. Joiner Leasing Corp., 320 U.S. 344, 350-51 (1943). For this purpose, the Copyright Act "must be read as a whole." *Desylva v. Ballentine*, 351 U.S. 570, 573 (1956).

This Court has long held that the fundamental purpose of the Copyright laws presses in favor of encouraging unrestricted trade in copies released to the market by the copyright holder.

> The limited scope of the copyright holder's statutory monopoly, like the limited copyright duration required by the constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. The immediate effect of our copyright law is to secure a fair return for an "author's" creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good. (Footnotes ommitted)

Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975), *quoting Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932); *see also Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994).

> The primary objective of copyright is not to reward the labor of authors, but 'to promote the Progress of Science and useful Arts.' To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work. (Citations omitted.)

Id., quoting Feist Publications, Inc. v. Rural Telephone Service Co., 499 U.S. 340, 349-350 (1991).

Given that the purpose of the law is not to reward the author, but to give the public maximum access to creative

work, "[t]he financial reward guaranteed to the copyright holder is but an incident of this general objective, rather than an end in itself." *Berlin v. E.C. Publications, Inc.*, 329 F.2d 541, 543-544 (2d Cir. 1964). Based on this reasoning, the Third Circuit correctly found that "[u]ltimately, the Copyright law regards financial reward to the owner as a secondary consideration." *Sebastian*, 847 F.2d at 1095.

In this context, the plain meaning of the related statutory provisions is clearly discernible. Section 106 provides that the owner of the copyright has "right to do or authorize" certain acts, including the right "to distribute . . . or transfer ownership". 17 U.S.C. § 106(3). Once that right has been exercised and the "reward" received, § 109(a) terminates any further rights under § 106(3). The importation provisions in § 602 do not create any new or additional substantive rights beyond those provided for in § 106, rather they merely indicate that unauthorized importation would be a violation of the "exclusive right to distribute." Where the U.S. copyright holder has authorized or exercised that right, and received its reward, any further rights under § 106(3) are terminated. Consequently, "the right does not survive so as to be infringed by importation." *Sebastian*, 847 F.2d at 1099. Thus, on the face of these provisions § 602 applies only to those situations where the U.S. copyright holder has neither exercised or authorized the right of distribution, *i.e.*, piratical copies or initial sales by third parties who are not authorized by or related to the U.S. Copyright holder. *See c.f. K mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988).

This reading of the relevant statutory language comports with the purpose, logic and structure of the statute as a whole. It allows each of the three provisions at issue

to be given substantive force and effect without obliterating the rights and obligations created by the related provisions. Moreover, as shall be demonstrated below, this reading comports with the legislative intent reflected in both the 1976 and 1990 amendments to the statute.

B. The 1976 Amendments To The Copyright Statute

The Ninth Circuit's interpretation of legislative history is partially founded on the belief that the legislative history of the 1976 Copyright Act contains no explicit reference to the interaction between §§ 602(a) and 109(a). *Lanza*, 98 F.3d at 1115. Starting from such an assumption, the Court looked to "the scenarios that were discussed by representatives of the printing and recording industries in assessing § 602(a)[.]" *Id.*, at 1116. This assumption is at least partially incorrect.[5]

Although §§ 602(a) and 109(a) were not explicitly contrasted in the legislative history, the question of the interrelation of the first sale doctrine and the import restriction was addressed on several occasions during the

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[5] Confusion as to the meaning of the 1976 Act and its legislative history is not completely unwarranted. The act is complicated and often unclear. Little, if any, substantive discussion took place amongst the members of Congress that passed the Act. Instead, most of the statutory language is based on the suggestions of industry representatives with economic interests in the outcome of the act. As at least one commentator has noted: "In some cases, affected parties agreed upon language, which was then adopted by Congress, while disagreeing about what the language meant." Copyright, Compromise and Legislative History, 72 Cornell L. Rev. 857 (1987). Whether the legislature's ultimate intent in any way relates to the intent of the various interest groups is at best calculated speculation.

early years of committee discussions on the 1976 Copyright Act. The 1961 tentative draft of the bills that were to become the 1976 Act preserved the import restriction against counterfeit goods which had existed under the prior law, but did not include an import restriction for genuine products. However, pressure was building from publishing interests to expand the definition of counterfeit goods or to otherwise ban the importation of copyrighted works in violation of private geographical restrictions. The Registrar of Copyrights in his 1961 report to Congress recognized these pressures and noted its opposition to imposing any such restrictions upon innocent buyers:

> When arrangements are made for both a U.S. edition and a foreign edition of the same work, the publishers frequently agree to divide the international markets. The foreign publisher agrees not to sell his edition in the United States, and the U.S. publisher agrees not to sell his edition in certain foreign countries. It has been suggested that the import ban on piratical copies should be extended to bar the importation of the foreign edition in contravention of such an agreement. Some countries, including the United Kingdom, bar importation in this situation, apparently on the ground that, even though the copies were authorized, their sale in violation of a territorial limitation would be an infringement of the copyright. In the United States, there is no clear decision as to whether the sale of authorized copies beyond a territorial limitation is an infringement. But the import ban on "piratical copies" does not seem to apply to authorized copies. We assume, without considering the antitrust questions involved, that agreements to divide international markets for copyrighted works are valid and enforcible [sic]

> contracts as between the parties. **But we do not believe that the prohibition against imports of piratical copies should be extended to authorized copies covered by an agreement of this sort. To do so would impose the territorial restriction in a private contract upon third persons with no knowledge of the agreement.** And even as between the parties, Customs does not seem to be an appropriate agency for the enforcement of private contracts.

Report of the Registrar of Copyrights on the General Revision of the U.S. Copyright Law, at 125-126 (July 1961), *reprinted in* 3 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (George S. Grossman ed., 1977) (emphasis added)

Clearly, even at this very early date in the consideration, the hypothetical focuses on a situation where the copyright owner in the United States has not earned a reward for the sale of the product and the first sale went to an independent foreign interest. This idea would continue to underly future consideration.

In the 1963 draft this idea took form when the prototype of modern § 602(a) was added to the proposed copyright revision. Two versions of this section were debated. In one version, Customs would enforce the restriction. In the other version, the restriction would only create a cause of action, but would not be enforced by Customs. At the insistence of the Department of the Treasury and of the Customs Service the latter version prevailed. The language in this early version of the section stated:

> (a) Importation into the United States of copies or records of a work for the purpose of distribution to the public shall, if such articles are imported without the authority of the owner of the exclusive right to distribute copies or

> records under this title, constitute an infringement of copyright actionable under section 35.

Preliminary Draft for Revised U.S. Copyright Law (1963) *reprinted in* 5 THE KAMINSTEIN LEGISLATIVE HISTORY PROJECT: A COMPENDIUM AND ANALYTICAL INDEX OF MATERIALS LEADING TO THE COPYRIGHT ACT OF 1976, at 420-421 (Alan Latman & James F. Lightstone eds., 1984)

Substantial comment led to this early draft. Most of these comments focused on situations where a foreign copyright owner sold genuine goods directly or indirectly into the United States. *Panel Discussions and Comments on 1961 Report (Part 2)* (2/15/63 issued), at 213 (March 15, 1962), *reprinted in* 3 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (George S. Grossman ed., 1977) (Comment of Sidney A. Diamond, London Records regarding sale by foreign publisher to third party who then shipped to U.S.); *Id.* at 226 (Comment of American Book Publishers Council, Inc., and American Textbook Publishers Institute). Alternatively the comments dealt with the legitimate product which, by some means, reaches illicit hands and is subsequently sold in the U.S. *Id.* at 213 (Comment of Edward A. Sargoy, Committee on Program Revision (film prints)). These comments share in common situations in which the U.S. copyright owner has not earned compensation for the first sale of the work. Nowhere do they mention the first sale doctrine.

The first sale doctrine does not enter the discussions between the various industry participants until January 15, 1964. In these discussions, before the arrayed representatives of the committee, it was clearly stated that whether a particular shipment violates the new import restriction depends on whether a valid first sale has taken place:

> Irwin KARP (Authors League of America):
> . . . there is a section now somewhat similar to

old section 27 which distinguishes between copyright and property in the object and which says " . . . but nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained." If a German jobber lawfully buys copies from a German publisher, are we not running into problems of restricting his transfer of his lawfully obtained copies?

Abe A. GOLDMAN (Copyright Office): I would suppose that the whole answer depends on whether the distribution that would take place in the United States would itself constitute an infringement of copyright. **When you apply this rule about the effect of the first sale of a copy exhausting the right to control further the distribution of that copy, your question would be whether this represents a sale of the copy that does exhaust the right.**

KARP: You are right Abe.

GOLDMAN: **This would vary from one situation to another, I guess.**

* * *

KARP: I am saying that the very first sale here is a perfectly legitimate and legal sale, and that brings into play the very basic concept of copyright law that, once you've sold a copy legally, you can't restrict its resale.

Julian T. ABELES (Music Publishers' Protective Association, Inc.): Well, everybody down the line is selling without authority, regardless of whether it is imported or not. If he sells it, he is liable.

Transcript of Meeting on Preliminary Draft for Revised U.S. Copyright Law: Discussions of §§ 45-53, at 211-212 (January

15, 1964) *reprinted in* 3 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (George S. Grossman ed., 1977) (emphasis added)

No one spoke up to challenge this reasoning or to state that no first sale abroad would be valid. Although not conclusive of the intent of the legislators who eventually passed the act, it certainly shows the failure of the committee, when presented with the opportunity, to express an intent to supplant the first sale doctrine.

The last major change in the language of the statute, for purposes of this discussion, was issued in 1966 and states:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work ~~for the purpose of distribution to the public~~ *that have been acquired abroad* is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to [importation by an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to copies or phonorecords intended to form a part of its library.]

H.R. 4347, 98th Congress, 2d Sess. (1966) *reprinted in* 5 THE KAMINSTEIN LEGISLATIVE HISTORY PROJECT: A COMPENDIUM AND ANALYTICAL INDEX OF MATERIALS LEADING TO THE COPYRIGHT ACT OF 1976, at 432-433 (Alan Latman & James F. Lightstone eds., 1984) At first glance this language might seem to buttress the Ninth Circuit's theory. A further look at the legislative record brings such a reading into question.

In the Hearings before Subcommittee No. 3 of the Committee on the Judiciary (House), the very hearings

which preceded this change, Representative Robert Kastenmeier accepted a statement by Robert T. Jordan, of the staff of the Council on Library Resources, to be read into the record. The statement unambiguously states in its pertinent part:

> Section 602 (p. 33, lines 21-25) *Infringing importation:* **Once a copyright article is lawfully purchased, there should be no geographical restriction on where the purchaser can resell.** In fact, section 109 specifies that "the owner of a particular copy or phonorecord * * * is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."

Hearings on H.R. 4347, H.R. 5680, H.R. 6831 and H.R. 6835, before Subcommittee No. 3 of the Committee on the Judiciary (House), 89th Congress, 1st Sess., at 468 (1965) (p. 468) *reprinted in* 5 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (George S. Grossman ed., 1977)

Again, after this statement was made a part of the record, no voice rang out challenging the accuracy of the conclusion. Despite various questions regarding other statements by speakers, no one reading this statement thought to comment on its accuracy.

It is important to remember that the amendments in 1976 also recodified the "first sale" doctrine. In describing the scope of § 109, the Senate Judiciary Committee used the following language:

> § 109(a) restates and confirms the principal that where **the copyright owner has transferred ownership of a particular copy** or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means.

S. Rep. No. 983, 93d Cong., 2d Sess. 131, at 128 (1974), *reprinted in* 13 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (George S. Grossman ed., 1977) (emphasis added).

In short, Congress reaffirmed the long held position that where the copyright holder had received its reward or compensation, further restraints on the alienation of the property were simply not justified.

In summation, the legislative history to the 1976 amendments reflects that the "problem" which was brought to the attention of the Congress involved the situation where the U.S. copyright holder had not earned compensation for the copy of the work for which the import restriction was sought. It must be presumed that it was this problem that Congress sought to remedy. At the same time, Congress, by not limiting § 109 in its text, clearly confirmed that where the U.S. copyright holder had received its compensation, further restrictions were not justified. *See also* S. Rep. No. 983, 93d Cong., 2d Sess. 131, at 128, *supra*. These considerations support the plain meaning of the statutory language outlined above.

C. The 1990 Amendments To The Copyright Statute

The background to the changes made to the copyright laws in 1990 further support the plain reading of the statutory language outlined above. These changes arose as a response to a judicial decision interpreting the copyright holder's performance and distribution rights.

In *Red Baron Franklin Park v. Taito Corp.*, 9 U.S.P.Q. 2d 1901 (E.D. Va. 1988), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990), the defendant engaged in the purchase overseas, of a foreign made and copyrighted good, initially sold by the foreign copyright holder which was related to the U.S. copyright

holder. The District Court refused to grant an injunction against the importer, finding that the "first-sale" by the related copyright holder under § 109 overrode the import restriction in § 602. *Id.* The Circuit Court overturned this decision, not based upon the import restriction, but instead based on the fact that the public use of the copyrighted material violated the U.S. copyright holder's "performance right." *Red Baron Franklin Park v. Taito Corp.*, 883 F.2d 275, at 281 (1989).

In 1990, Congress specifically amended the copyright statute to overturn the effect of the ruling in *Red Baron*. *See* Judicial Improvements Act, Pub. L. No. 101-650 § 103 *reprinted in* 1990 U.S.C.C.A.N. 6935. Although Congress created certain exceptions to the "first-sale" doctrine, it did not choose to modify either § 109 or § 602 to clearly prohibit the applicability of the first sale abroad thereby overturning the interpretation employed by the *Red Baron* District Court. This creates a presumption that Congress accepted the conclusions of the District Court[6] that § 602 does not supersede the first sale doctrine, which should now enjoy the force and effect of law. *Merrill Lynch, Pierce, Fenner & Smith v. Curran*, 456 U.S. 353 (1982); *Wehrly v. United States*, 808 F.2d 1311 (9th Cir. 1986).

The Ninth Circuit below rejected this argument on the basis that, "in amending § 109(e) [first sale doctrine], Congress was concerned about the relationship between the first sale doctrine and § 106(4), not the relationship between the first sale doctrine and § 602(a)." This argument, that Congress overlooked the significance of the

[6] And the 1988 decision of the Third Circuit in *Sebastian International* upon which the District Court decision in *Red Baron* was based.

lower Court's ruling in amending the law, does not conform with the maxims of statutory interpretation and ignores the very legislative history of the act. As a general rule, Congress is deemed to know existing case law to which it is addressing legislation since "[w]e may fairly presume that Congress is aware of the common-law background against which it legislates[.]" *Chappell v. Robbins*, 73 F.3d 918 (9th Cir. 1996); *see also, Nordgren v. Burlington N. R.R.*, 101 F.3d 1246 (8th Cir. Minn. 1996) *reh'g, en banc, denied, Nordgren v. Burlington N. R.R.*, 1997 U.S.App. LEXIS 800 (8th Cir. Jan. 16, 1997); *Roche Prods. v. Bolar Pharm. Co.*, 733 F.2d 858 (Fed.Cir. 1984); *Webster v. City of Houston*, 689 F.2d 1220 (5th Cir. 1983).

In this instance, we know that Congress was aware of the common law background because it specifically detailed the case in its legislative history:

> The Committee has also been made aware of an anomaly in existing copyright law that prevents certain coin-operated equipment from being used for their intended purpose. In *Red-[sic] Baron Franklin Park, Inc. v. Taito Corp.*, a Japanese manufacturer of electronic audiovisual games **conceded that the first sale provisions of section 109(a) of the Copyright Act permitted a U.S. arcade game operator to purchase, in Japan, a circuit board containing the game and to then import the circuit board for insertion into a coin-operated arcade game in the United States.** The manufacturer, though, argued – and the court of appeals agreed – that the first sale doctrine does not act as a limitation on the public performance right. The court acknowledged that the circuit boards "have utility only in the hands of someone who plans to exploit them commercially." Nevertheless, the court

> held that the plain words of the statute dictated a finding of infringement.
>
> In order to rectify the anomaly in the Copyright Act that permits copyright owners of electronic audiovisual games designed for use in coin-operated equipment to sell printed circuit boards containing the games and then turn around and successfully sue to prevent use of the circuit boards for their intended purpose, the bill provides that the public performance right will not apply in the following very limited circumstances: where, in the case of electronic audiovisual games intended for use in coin-operated equipment, a lawfully made copy of such game has been purchased and is used in such equipment.

Judicial Improvements Act, Pub. L. No. 101-650 § 103, *reprinted in* 1990 U.S.C.C.A.N. 6935, 6947 (emphasis added).

Here, more than anywhere else in the legislative history of the Copyright Act, the legislature's intent to preserve the first sale doctrine for foreign sales in which the U.S. copyright owner has received compensation becomes clear and unambiguous. The legislature by its very words knew that the circuit boards in *Red Baron* had been purchased abroad and the purchase consituted a valid first sale. It knew that the boards had been imported into the United States. When it amended the Copyright statute to alter the performance right to "rectify the anomaly" that the goods could be purchased, but not used, it was evident that **the first sale doctrine must apply to foreign sales, otherwise Congress was doing a useless act.** If the foreign purchased circuit boards could not be imported pursuant to § 602(a), then the amendment to the performance right would have had no practical effect in the case of *Red Baron*. The boards would still

not have been usable in the United States. We must not presume that Congress did a useless thing or that it would rely on an inapplicable example as the basis for its statutory amendment. *See Nobel v. TVA*, 892 F.2d 1013 (Fed.Cir. 1989); 2B *Norman J. Singer, Sutherland Statutory Construction* § 49.11, at 83 (5th ed. 1992).

Thus the actions of Congress in 1990 should be read as affirming the lower court opinion in *Red Baron* and the holding of the Third Circuit in *Sebastian*. In view of the evident congressional intent the observation of the Third Circuit in 1988 is specially pertinent:

> This twist has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that **the controversy over "gray market" goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.**
>
> *Sebastian*, 847 F.2d at 1099. (emphasis added)

D. The Adequacy Of Consideration Is Not A Proper Area For Judicial Scrutiny.

Based on the foregoing examination of the applicable legislative history, it is clearly apparent that a pronounced desire to preserve the geographically unlimited application of the first sale doctrine permeated the various perambulations of the Copyright Act. While the import restriction in § 602 was certainly designed to provide at least some greater protection for the copyright holder, nothing on the face of the statute suggests that it is intended to allow a copyright holder to restrain trade, after he has received a "reward" for his copyright. When a copyright holder directly or through a related company

sells a work overseas, he is receiving his fair "reward" regardless of the price which he charges. The mere importation of a work by the purchaser does not mean that the copyright holder did not receive a "reward" for his copyright. *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. 344 (S.D. Fla. 1985); *Red Baron Franklin Park v. Taito Corp.*, 9 U.S.P.Q. 2d 1901 (E.D. Va. 1988); *Red Baron Franklin Park v. Taito Corp.*, 883 F.2d 175 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990); *Sebastian International*, 847 F.2d at 1099.

The Ninth Circuit's incursion into the sufficiency of the price asked by the copyright owner for its sale was unwise and unwarranted. It is a basic maxim of contract law that "the adequacy of consideration is not a proper subject for judicial scrutiny." E. Allan Farnsworth, FARNSWORTH ON CONTRACTS, 99 (1990). The Ninth Circuit itself affirmed this general principle with regards to copyright sales in *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996) where it held that when a copyright owner consents to the sale of a product bearing his or her copyright it constitutes a valid first sale regardless of the value received by the copyright owner. The Ninth Circuit's new ruling in this case by overturning *Denbicare* and challenging whether the consideration justified the exchange, opens a Pandora's box for factual inquiries in millions of copyright transactions. These inquiries are not warranted by the Copyright statute nor by general precepts of contract law.

III. THE FAIR USE DOCTRINE PROVIDES FURTHER SUPPORT FOR THE REVERSAL OF THE DECISION BELOW.

Further limitations on the exclusive rights of the Copyright holder, provided for in § 106, are found in

§ 107, the fair use doctrine. As will be discussed in detail below, this doctrine provides an independent basis for permitting the import and sale of the products at issue. Initially, however, it must be observed that this provision deals with the uncompensated use of copyrighted material. Thus, the mere existence of this doctrine reflects that the primary intent of Congress is to provide maximum public access to the creative work and strongly supports the above analysis that once the copyright holder has received compensation, further restrictions on the distribution of the copy are not justified.

The fair use doctrine, codified in 17 U.S.C. § 107, sets forth a general, equitable exception to the rights of the owner of the copyright in a work, subject to the discretion of the Court. *Pacific and Southern Co., Inc. v. Duncan*, 744 F.2d 1490 (11th Cir.), *reh'g denied*, 749 F.2d 733 (11th Cir.), *cert. denied*, 471 U.S. 1004 (1984). This provision is in essence "an equitable rule of reason" and wisely allows courts flexibility in accounting for ever changing situations in a technologically complex world. *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539 (1985). That statute sets forth in relevant part:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107[7]

In the instant case, the Court is faced with the misuse of a copyright to restrain legal trade in non-creative products. When a consumer buys a book, her intent is to purchase the copyrighted work on the page. When a consumer buys a compact disk, his intent is to purchase the copyrighted music etched on its reflective surface. When a consumer buys a computer game cartridge, her goal is to purchase the game encoded within. However, when a consumer purchases a shampoo, electronic equipment or a fragrance, which displays a copyrighted design on its packaging, he or she is really buying the underlying product.

In such circumstances the object of the purchase, and the far greater portion of the product, is purely functional. However, by affixing a non-removable copyrighted label or design to the package, the manufacturer tries to imbue with all the benefits of the copyright

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[7] Although the statute suggests that it may be applied "for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research" it does not limit its application to such examples. "The text employs the terms 'including' and 'such as' in the preamble paragraph to indicate the 'illustrative and limitative' function of the examples given, which thus provides only general guidance about the sorts of copying that courts and Congress will most commonly have found to be fair uses." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577 (1994).

monopoly, the underlying functional product. Such use of the copyright laws was not intended by Congress.

Admittedly, a review of the literature of prior decisions concerning the application of § 107 has revealed no case in which the Fair Use doctrine has been applied to copyright designs on commercial labels or packages. However, when dealing with the question of copyrighted labels, courts have had to face the risk of the "tail wagging the dog" by allowing proprietors to "leverage their thin copyright protection over the label into a monopoly on the typical uncopyrightable product to which it is attached." 1 NIMMER ON COPYRIGHT § 2.08[G][2], at 2-138 (December 1996). By stepping through the considerations suggested by § 107, the propriety and necessity of avoiding such a result in this instance becomes apparent.

A. The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.

Traditionally, the Court looks more kindly on nonprofit educational uses in applying this test. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S., 417 (1984). However, the reason for this is not the mere fact that the user makes a profit "but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price." *Harper & Row*, 471 U.S. at 562; *See also, Roy Export Co. Establishment v. Columbia Broadcasting System, Inc.*, 503 F.Supp. 1137, 1144 (S.D.N.Y. 1980); 3 NIMMER ON COPYRIGHT § 13.05[A][1], at 13-71, n. 25.3 (1996). In other words, as we repeatedly argued above, the question for the Court should be whether the copyright owner received his reward for the sale of the product.

Admittedly, the importer or reseller who purchases the product abroad and tries to import it into the United

States is doing so for a commercial purpose. However, the significant distinctions from the traditional model are that in the instant case the copyright holder has received his reward and that the importer brings the product into the United States not to traffic in the copyright, but instead in the underlying product. This business, often referred to as parallel market or derisively as "gray market", has been previously examined by this Court and found to be a legitimate form of competition. *K mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988).

Although copying for a commercial purpose weighs against fair, use *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 560 (1985), no similar prejudice should attach to the legitimate resale of principally functional, genuine products. Particularly since, by placing the copyright on the product, the manufacturer has given the reseller no alternative but to sell the product bearing the copyright. If the reseller were try to obliterate the copyright design, she would invite a lawsuit for selling a defaced product. If the reseller were to try to rebottle or repackage the product, it could be financially prohibitive and thereby present an unfair impediment to legitimate trade. Where the manufacturer has chosen to place its copyrighted design on the product in a manner that cannot be legally removed, it should not later be able to claim copyright infringement in order to restrain trade. *See c.f. Sebastian International, Inc. v. Longs Drug Stores Corporation*, 53 F.3d 1073 (9th Cir. 1995) (manufacturer affixed collective mark to product to restrain trade).

B. The nature of the copyrighted work.

Not all copyrighted works are entitled to the same level of protection. *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992). The nature of the copyrighted work in the instant case, is a label or a design

affixed to a package or container. Courts have tended to require a slightly higher degree of originality for copyrights related to labels or advertisements. Melville B. Nimmer, NIMMER ON COPYRIGHT, Vol. 1 § 2.08[G][2], December 1996. If the copyright on a label is viewed as a part of the total product, the portion of the value of the product that is affected by the copyrighted work is very small. In such a situation, the copyright should be given weak protection. *See e.g., Sega* at 1527.

C. The amount and substantiality of the portion used in relation to the copyrighted work as a whole.

Traditionally, when applied to literary or graphic works, the Court under this test makes a comparison between the total copyrighted work and the portion actually used by the party claiming "fair use." A small excerpt extracted from a book might be judged fair use because of its minor use in relation to the complete work. In the instant case, we need to consider the copyright in relation to the total product being sold. Such use is justified since, absent some method for removing the copyright, it is "necessary" to leave the entire copyrighted material on the product in order to sell the underlying functional product. *See, Twin Peaks Productions, Inc. v. Publications Intern., Ltd.*, 996 F.2d 1366 (2nd Cir. 1993); *Rubin v. Brooks/Cole Pub. Co.*, 836 F.Supp. 909 (D.Mass. 1993). In the novel situation presented in the instant case, we submit that the test should be applied as "the amount and substantiality of the portion copyright used in relation to the product as a whole."

Generally speaking, in relation to the functional product to which the copyright is affixed in a situation such as the one herein, the copyright is a very minor

portion of the total product – usually encompassing just a few lines or a small drawing on the surface of the package or container. Although the copyright design, it may be argued, contributes to the appearance and salability of the product, **this Court should reject the "sweat of the brow" rationale for copyright protection.** *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991). By indelibly combining his copyright with the underlying functional product, the copyright owner has rendered his work, on the whole, mainly functional. In such instances, the equitable considerations weigh on the side of free trade and public access.

D. The effect of the use upon the potential market for or value of the copyrighted work.

The effect of the use upon the market has been seen by Courts as one of the most important factors in determining the existance of fair use. *See, National Rifle Ass'n of America v. Handgun Control Federation of Ohio*, 15 F.3d 559 (6th Cir.), *cert. denied*, 130 L.Ed.2d 26 (1994). This case introduces unique elements to the application of this test. Unlike cases where portions of works or entire works are reproduced in a particular market without the copyright owner's consent, in the instant case, by altering its sale prices and foreign shipments the copyright owner has the complete control over what is sold. The copyright owner is being paid for the goods and the genuine, unaltered goods are merely being resold.

In addition to the foregoing factors, the Court should consider the public benefit resulting from this particular application of the fair use doctrine. The parallel market has existed and grown in the United States for a great many years. *See, K mart*. It is both a significant entity in its own right, as well as an important source of affordable

quality merchandise for U.S. consumers. Over the course of the last 50 years, a careful balance has been created to protect the legitimate interests of intellectual property right holders to receive compensation for their efforts without encouraging obstacles to free trade competition. To allow copyright owners to exploit § 602 to engage in discriminatory price manipulation in different national markets defeats efforts at free competition and trade.

The impact on our own economy of such unwarranted restrictions would be substantial. The parallel market represents a significant portion of the U.S. economy, involving practically the entire range of consumer products. In terms of fragrances which are closely related in sales and market to the products which are the subject of the instant litigation, industry lobbying organizations estimate that 25% of the market consists of parallel merchandise. *Unable to Protect Product Trademarks, Manufacturers Copyright the Boxes*, NEW YORK TIMES, November 24, 1994. In total, the parallel market constitutes a multi-billion dollar industry nationwide. *Circuit Prohibits Import of Gray-Market Goods*, THE NATIONAL LAW JOURNAL, January 27, 1997. Hair care products, however, are only a small portion of a large industry which includes cosmetics, household goods, games and home electronics. In short, we doubt that Respondent will dispute the economic significance of the industry at issue.

Based on the foregoing we believe that this Court would be justified in finding that, in limited circumstances where copyrighted designs are affixed to the package or container of a primarily functional product, the resale of that product constitutes a valid fair use of the copyright regardless of the location of the sale.

CONCLUSION

For the foregoing reasons, this Court should grant the petition and reverse the decision of the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

No. 96-1470

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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REPLY BRIEF FOR PETITIONER

In our opening brief, we showed that the prohibition of imports contained in Section 602(a) is subject to the same limitations as the other components of the Section 106(3) distribution right, including the first sale doctrine of Section 109(a). In response, L'anza advances a hodgepodge of arguments, most of which involve *other* provisions of the Copyright Act and none of which refutes our central point. L'anza seeks an exception from the well-settled principle that a copyright owner has no right to control the subsequent disposition of genuine copies of copyrighted works once the owner has sold them. As shown below, there is no basis for creating such an exception, and no basis for allowing L'anza to use the Copyright Act to promote its territorial marketing schemes and charge higher prices for goods intended for U.S. consumers.

I. SECTION 109(a) PRECLUDES THE APPLICATION OF SECTION 602(a) IN THIS CASE

A. Section 109(a) Applies to Importation

Some of L'anza's *amici* advance a new argument that was not raised below.[1] They contend that Section 109(a) does not apply to this case because Section 602(a) applies to the act of "importation," while Section 109(a) allows the owner of a lawfully made copy to "sell or otherwise dispose of the possession of the copy * * *." Thus, they argue, Section 109(a) does not cover the act of importation and therefore provides Quality King with no defense.

To the extent the argument is even properly before the Court,[2] it should be rejected. The first sale doctrine has existed, in either case law or statute, for more than 100 years.[3] As this Court held in *Bobbs-Merrill*, 210 U.S. at 351, the doctrine delimits the distribution right: a copyright owner's distribution rights do not extend to copies that have been sold. *See* Pet. Br. at 20. Thus, when Congress expressly made Section 602(a) a component of the Section 106(3) distribution right, it necessarily incorporated this limitation. L'anza's *amici* have offered no reason why the Court should except the importation provision from the longstanding first sale limitations applying to the rest of the distribution right. Nor have they demonstrated any reason to believe that Congress intended to curtail sharply the first sale doctrine—a long-settled and well-recognized principle of copyright law—without as much as a mention of such intention in the statutory language or legislative history.

[1] *See* U.S. Br. at 7-10; Br. for Recording Industry Association of America, *et al.* ("RIAA Br.") at 19-21; Br. for the National Consumer League, *et al.* at 21.

[2] The Court will not consider arguments raised by *amici* when those arguments were not raised by the parties in the proceedings below or in this Court. *See Robertson* v. *Seattle Audobon Soc'y*, 503 U.S. 429, 441 (1992); *United Parcel Serv., Inc.* v. *Mitchell*, 451 U.S. 56, 60 n.2 (1981); *Bell* v. *Wolfish*, 441 U.S. 520, 531 n.13 (1979). L'anza did not raise this argument below, and although L'anza now alludes to it in one sentence of the "summary" of argument section of its brief (*see* Resp. Br. at 16), the contention appears nowhere in the actual argument. Accordingly, the Court should decline to consider it.

[3] *See Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339 (1908); *Kipling* v. *G.P. Putnam's Sons*, 120 F. 631, 634 (2d Cir. 1903); *Doan* v. *American Book Co.*, 105 F. 772, 776 (7th Cir. 1901); *Harrison* v. *Maynard, Merrill & Co.*, 61 F. 689, 691 (2d Cir. 1894); *Bobbs-Merrill Co.* v. *Snellenburg*, 131 F. 530, 532 (E.D. Pa. 1904); *Clemens* v. *Estes*, 22 F. 899, 900 (D. Mass. 1885); *Stowe* v. *Thomas*, 2 Amer. Law Reg. (O.S.) 210, 213 (E.D. Pa. 1853).

The terms of Section 109(a) are quite broad: they allow any owner of a copy made lawfully under U.S. copyright law (and it is undisputed that Quality King is such a person) to sell "or otherwise dispose of the possession" of that copy. As this Court has noted, "'the expression 'dispose of' is very broad, and signifies more than 'to sell.' Selling is but one mode of disposing of property.'" *Hill* v. *Sumner*, 132 U.S. 118, 123-124 (1889) (quoting *Phelps* v. *Harris*, 101 U.S. 370, 380 (1879)). And as even the Government notes (*see* U.S. Br. at 8), the term "dispose of" means, among other things, "to transfer," *The American Heritage Dictionary of the English Language* 380 (1980)—a meaning that is plainly broad enough to include the act of transporting from one country to another. *See also Webster's Third New International Dictionary* 654 (1976) (defining word "disposal" to include "the transference of something into new hands *or to a new place*") (emphasis supplied). Section 109(a) was plainly intended to immunize more activities than those listed in Section 106(3) itself, and importation is a principal example of such an activity.[4] A disposal of possession of any article

[4] The terms of Section 109(a) demonstrate that its protection for owners of lawfully made copies was intended to be broader than the components of the distribution right set forth in Section 106(3): the terms of Section 106(3) grant the copyright holder the exclusive right only to "distribute copies * * * to the public," while Section 109(a) grants the owner of a copy the right to "sell or otherwise dispose of the possession" of the copy irrespective of whether public dissemination has occurred. This is strong evidence that Congress intended for Section 109(a) to immunize conduct covered by the Copyright Act in addition to the activities set forth in Section 106(3).

could include the article's transport, delivery, export or import, and there is no exception to Section 109(a) when an importation is part of the transaction by which a lawfully obtained article is "disposed of." Moreover, very few situations covered by Section 602(a) would not entail selling or disposing of the possession of the imported item—whether to a shipper or the ultimate recipient—and there is no allegation that this case presents such a situation.

The legislative history confirms that Congress intended for Section 109(a) to have this broad effect. The prior codification of the first sale doctrine provided that nothing in the Copyright Act should be deemed to restrict the "transfer" of any copyrighted work lawfully obtained, Act of July 30, 1947, ch. 391, § 27, 61 Stat. 652, 660, and this provision was intended to prevent a copyright owner from exercising "any control whatever" over the article once it has been sold. H.R. Rep. No. 2222, 60th Cong., 2d Sess. 19 (1909). The Copyright Act of 1976 was intended to "restate[ ] and confirm[ ]" the prior doctrine. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79 (1976) [hereinafter, "House Report"]; S. Rep. No. 473, 94th Cong., 1st Sess. 71 (1975) [hereinafter, "Senate Report"]. Congress intended that under Section 109(a) the sale of a copy "frees it from *any copyright control* over its resale price *or other conditions of its future disposition*." *Id.* (emphasis supplied). This language indicates Congress' intent that Section 109(a) be given broad effect, encompassing the activities alleged to have occurred in this case. There is no hint that "dispositions" of lawfully obtained copies are removed from the ambit of Section 109(a) when they include importation. L'anza is plainly attempting to impose a condition on Quality King's disposition of the goods in question, and that attempt is therefore barred by the first sale doctrine.[5]

[5] Even if the Court were to hold that the language of Section 109(a) does not protect the act of importation, the judgment below must still be reversed. In *Parfums Givenchy, Inc.* v. *Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 514 U.S. 1004 (1995), the Ninth Circuit held that if a copy is imported in violation of Section 602(a), then all subsequent acts of distribution necessarily violate Section 602(a) and are not

B. Applying Section 109(a) in This Case Does Not Render Section 602(a) Meaningless

Neither L'anza nor its *amici* have refuted our point that there are numerous circumstances in which Section 602(a) would prevent importation of non-piratical copies notwithstanding the applicability of Section 109(a). *See* Pet. Br. at 24-29. Instead, some of L'anza's *amici* attempt to belittle our position, by contending that under our interpretation Section 602(a) would apply in only a few trivial situations. *See, e.g.*, U.S. Br. at 16. The circumstances we posit, however, are not unusual, and were specifically contemplated by the drafters of Section 602. *See* Pet. Br. at 26-29 & n.13.

For example, we explained that the holder of the U.S. rights to a work could likely prevent the importation of competing copies made by an unrelated holder of foreign rights—regardless of whether the copies had been sold—because they would not have been "made under this title" within the meaning of Section 109(a). *See* Pet. Br. at 28-29; *see also* U.S. Br. at 30 ("made under this title" refers to copies made with the authorization of the copyright owner or otherwise authorized by title 17). Thus, the owner of the U.S. copyright to a book or videocassette could likely prevent the importation of

protected by Section 109(a). Expressly relying on that holding, L'anza contended in the lower courts that it was wholly *irrelevant* whether Quality King had any connection to the importation. *See* Pet. Br. at 5 n.1; Appellees' Answering Brief at 14-16, *L'anza Research Int'l, Inc.* v. *Quality King Distributors, Inc.*, No. 95-56447 (9th Cir. filed Mar. 27, 1996). L'anza produced no evidence on that point in support of its motion for partial summary judgment, and in fact later put forward evidence demonstrating that Quality King was *not* the importer. *See* Declaration of John K. McKasson ¶ 7 & Ex. 6 thereto (R. 88). Accordingly, if the Court were now to consider and accept the new argument that the applicability of Section 109(a) turns on whether Quality King itself imported the goods, that factual issue is plainly in dispute. As plaintiff, L'anza bore the burden of proving Quality King's liability. If L'anza is permitted to switch theories at this late date and now argue that it *is* relevant whether Quality King was the importer, Quality King must be given the opportunity to rebut that new allegation.

foreign copies produced solely under a foreign copyright, regardless of whether those editions had been first sold. This precise situation—which corresponds to the interpretation of the trademark laws this Court upheld in *K Mart Corp.* v. *Cartier, Inc.*, 486 U.S. 281 (1988)—was in fact the principal concern voiced by proponents of Section 602(a) during the revision process. *See* Pet. Br. at 28-29 n.13. Under this interpretation, Section 602(a) both retains significant meaning and is fully consistent with the longstanding first sale doctrine: while a U.S. copyright may block importation of copies produced solely under the copyright laws of a foreign country—whose production and distribution the U.S. copyright holder cannot control—it may not do the same for copies that it has itself made and sold.

For the same reasons, L'anza is wrong to contend that our interpretation would render the exceptions listed in Section 602(a)(1)-(3) "superfluous." Resp. Br. at 20, 25. Just as Section 602(a) retains significant meaning when subject to Section 109(a), so the exceptions to Section 602(a) are not "superfluous" as well. As we have shown (*see* Pet. Br. at 24-25), and as L'anza concedes (*see* Resp. Br. at 15-16), Section 602(a), where it applies, permits the copyright holder to block importation even where no public dissemination has occurred or is even intended. Thus, notwithstanding the applicability of Section 109(a), there was a need to protect persons who import copies for purposes other than public distribution. That is precisely what Congress did in Section 602(a)(1)-(3). Each of these exceptions applies to certain copies imported for purposes other than distribution to the public. For example, Section 602(a)(2) would allow a traveler to carry in his or her personal baggage no more than one copy of a foreign edition of a U.S. copyrighted book for personal use, notwithstanding that the U.S. copyright holder could likely block the importation of other copies of that edition intended for public distribution. As discussed above, Section 109(a) does not protect the traveler if the multiple copies were made under a foreign copyright and not "made under this title." Thus, far from being "superfluous" under

our interpretation, the specific exceptions in Section 602(a) are an integral and necessary part of the statutory scheme.[6]

C. The Structure of the Copyright Act Supports Quality King's Interpretation

The structure of the Copyright Act confirms our interpretation. As we have explained, by expressly making Section 602(a) a component of the distribution right, and by expressly making that right subject to Section 109(a), Congress indicated its intention that Section 602(a) would be subject to the first sale doctrine just like the rest of the distribution right. *See* Pet. Br. at 14-16. L'anza does not even *attempt* to explain why else Congress would have linked Section 602(a) to the Section 106(3) distribution right.[7] Instead, L'anza contends that *other* statutory provisions that are not applicable here support its position. In fact, however, the structure of the Copyright Act supports our interpretation, not L'anza's.

1. Section 501

L'anza argues in passing that the reference to Section 602 in Section 501 (the Copyright Act's general enforcement

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[6] L'anza also argues that the reference to Section 108(g)(2) in Section 602(a)(3) somehow demonstrates that Congress did not intend for the other exceptions in Sections 107 through 120, including Section 109(a), to apply to Section 602(a). *See* Resp. Br. at 23-24. The reference does not support L'anza's point. Section 108(g)(2) is an exception to Section 108's authorization for certain types of libraries or archives to reproduce or distribute no more than one copy of certain types of works under specified circumstances. Thus, when Congress enacted the analogous exception in Section 602(a)(3), which applies to different organizations and different works, it simply wanted to make clear that Section 602(a)(3) would likewise not apply in the circumstances set forth in Section 108(g)(2)—*i.e.*, where the importation was part of a systematic reproduction or distribution effort.

[7] The Government asserts that Congress did so merely "to identify who may sue to enforce the Section 602 importation right, not to delimit the scope of that right." U.S. Br. at 20. Neither the language of Section 602(a) nor the legislative history cited by the Government (*id.* at 21) remotely supports that assertion.

provision) demonstrates that Congress intended for Section 602(a) to be a separate right not subject to the same limitations as the Section 106(3) distribution right. *See* Resp. Br. at 31; *see also* U.S. Br. at 19. There was a clear reason, however, for Congress to separately specify the act of importation in Section 501 even though it had already made Section 602(a) a component of the Section 106(3) distribution right. Without a specific reference to Section 602, Section 501 would have conferred enforcement rights only against one "who violates any of the exclusive rights of the copyright owner as *provided by* Sections 106 through 118." 17 U.S.C. § 501(a) (emphasis supplied).[8]

Thus, to ensure that there would be no question as to whether a violation of Section 602(a) would be actionable under Section 501, Congress specified the act of importation as an actionable infringement in addition to the acts specifically listed in Section 106. Had Congress not done so, it would have created unnecessary confusion over whether the reference to Section 106 in Section 501 included importation by virtue of the incorporation of Section 106 in Section 602(a). No greater meaning can be divined from Section 501, which says nothing whatsoever about whether Section 109(a) applies to this case.[9]

2. Section 106A

We explained in our opening brief that the language of Section 106A demonstrates that when Congress intends to create distinct rights that are exempt from the first sale doctrine, it does so expressly. *See* Pet. Br. at 16-17. In response, L'anza

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[8] Moreover, although Congress, in Section 602(a), deemed unauthorized importation to be a violation of the distribution right, that does not mean that importation and distribution are the same thing. Indeed, as the Government takes pains to note, the two terms are not synonymous. *See* U.S. Br. at 18-20.

[9] Congress' "belt-and-suspenders" approach to this issue is demonstrated by the fact that it separately cross-referenced Section 501 in Section 602(a), a reference that would appear unnecessary given the language of Section 501.

contends that Congress denominated Section 106A—unlike Section 602(a)—as an independent right not lost through transfer of the work because "Section 106A provides rights to original works of visual art, not copies of those works," and because Section 106A rights "are those of the author, whether the copyright holder or not." Resp. Br. at 21, 22.

These are distinctions without any relevance. Regardless of what is protected by Section 106A and who can enforce it, Congress needed to specify expressly that Section 106A was an independent right not lost through a first sale because the right would otherwise have been subject to all of the limitations—including the first sale doctrine—that apply to exclusive rights under the Copyright Act. The same is true with Section 602(a), yet Congress made no such exemption.[10]

3. Section 107

In our opening brief, we explained that if L'anza were correct that Section 602(a) is an independent right unlimited by the exceptions set forth in Sections 107 through 120, then Section 602(a) would not be subject to the "fair use" exception of Section 107, with the untenable result that importations of material that would otherwise be fair use would be an infringement of copyright. In response, L'anza concedes that, under its interpretation, Section 602(a) would not be subject to Section 107, but argues that this would not result in draconian restrictions on the international transfer of information because the exceptions in Section 602(a)(1)-(3) supposedly serve the same function as the fair use doctrine of Section 107. *See* Resp. Br. at 24.

L'anza is mistaken. The exceptions in Section 602(a) provide private citizens with extremely limited rights to import no more than five copies of a copyrighted work for certain

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[10] L'anza also argues that Congress needed to be clearer that Section 106A is independent of Section 106 because of "the proximity of the two statutes" in the U.S. Code. Resp. Br. at 21. This argument is absurd. The physical placement of a provision in the U.S. Code can have no relevance to the proper interpretation of the statute's language.

purposes other than for public distribution. Section 107, by contrast, provides that the "fair use of a copyrighted work * * * for purposes such as criticism, comment, news reporting, teaching * * * scholarship, or research, is not an infringement of copyright." 17 U.S.C. § 107. Thus, Section 107 applies in a wide range of circumstances that are not covered by the exceptions in Section 602(a). For example, the use of small excerpts from U.S. copyrighted material in a newspaper, book review, or work of literary criticism is generally considered fair use. *Id.* However, if multiple copies of such a work—for example, a foreign newspaper or scholarly book—are imported for public distribution, the importation would not be covered by the exceptions in Section 602(a) and would, in L'anza's view, be prohibited. That is plainly an intolerable result, and one that Congress could not have intended when it made Section 602(a) part of the Section 106(3) distribution right.

D. The Legislative History Supports Quality King's Interpretation

We have explained that to the extent the legislative history is relevant to the question before the Court, that history supports Quality King's interpretation, not L'anza's. *See* Pet. Br. at 17-23.[11] In response, L'anza has selectively quoted and even mischaracterized portions of the legislative record in order to support its position.

Thus, L'anza contends that the official committee reports are "unambiguous" that Section 602(a) is not subject to the same limitations as the other components of the Section 106(3) distribution right. Resp. Br. at 32 (quoting

[11] The Government (*see* U.S. Br. at 11 n.7) takes issue with our statement that the informal panel discussions held during the Copyright Act revision process are of little use in divining Congress' intent on the present issue, noting that the Court considered these materials in *Mills Music, Inc.* v. *Snyder*, 469 U.S. 153 (1985). In that case, however, the Court merely considered these materials—as it would hearing testimony—to show that Congress was aware of certain practices in the music publishing industry. *Id.* at 170-172.

House Report, *supra*, at 169-170; Senate Report, *supra*, at 152). As we have explained, however, the general language cited by L'anza is followed almost immediately by specific explanations of Section 602(a) making clear that the provision was intended to apply only to copies whose "distribution in the United States would infringe the U.S. copyright owner's exclusive rights." House Report, *supra*, at 170; Senate Report, *supra*, at 152. The principal instance where distribution would *not* be an infringement is where the person possessing the copy is the lawful owner of it under Section 109(a). Accordingly, this legislative history is in fact evidence that Congress intended for Section 602(a) to be subject to the same limitations as the other components of the distribution right, including Section 109(a).[12]

L'anza's next argument simply misrepresents the legislative history. According to L'anza, its position is supported by a reference in the committee reports to "Section 109" in connection with Section 602. *See* Resp. Br. at 32 (quoting House Report, *supra*, at 170; Senate Report, *supra*, at 152). The quoted provision, however, refers to "section 109 *of the statute now in effect*,"—*i.e.*, Section 109 of the Copyright Act of *1909*, which Congress was then revising. Section 109 of the 1909 Act (as amended prior to the 1976 Act) was an enforcement provision, carried forward in current Section 603, that had nothing to do with the first sale doctrine. *See* Act of July 30, 1947, ch. 391, § 109, 61 Stat. 652, 664 (codifying and amending Act of Mar. 4, 1909, 35 Stat. 1075). Thus, the language quoted by L'anza has nothing to do with the issues now before the Court.

[12] Thus, we agree with the Government that Section 602(a) was not intended to apply where there is "no Section 106(3) distribution right." U.S. Br. at 21. *See also id.* ("only copyright owners who retain their distribution rights can enforce the importation right"). The Government postulates (*id.*) that a compulsory licenser cannot avail itself of Section 602(a) because its exclusive distribution right has become subject to the statutory license. *See* 17 U.S.C. § 115. The same is true, however, for a copyright owner whose exclusive distribution right has been cut off by Section 109(a).

L'anza also attempts to recast the comments of Mr. Goldman, the former General Counsel of the Copyright Office, referred to in our opening brief. *See* Pet. Br. at 22-23 & n.10. L'anza quotes Goldman's response to a question about Section 602's effect on books that had been imported after being purchased from a German wholesaler who had purchased them from a German publisher. *See* Resp. Br. at 34-35. The response indicates Goldman's understanding of the proposed statute's general purpose of restricting unauthorized imports. Almost immediately after the quoted response, however, Goldman made clear his understanding that the effect of the statute was that "if the exclusive right to distribute copies is vested in somebody in the United States, *so that sale by somebody else in the United States would be an infringement*, then the importation for the purposes of making that sale would also be an infringement." Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law* 211 (Comm. Print 1964) (emphasis supplied). This comment, and others we have noted (*see* Pet. Br. at 23 & n.10), clearly indicate Mr. Goldman's view that liability under Section 602 exists only where the copyright owner would be able to block subsequent distribution in this country.[13]

Finally, L'anza attempts to draw conclusions from the absence in the legislative history of any specific reference to Section 109(a) in connection with Section 602(a). *See* Resp. Br. at 33. The lack of such references hardly proves L'anza's point. Indeed, if anything, the silence supports our view that if Congress had intended to exempt only one component of

[13] The Government argues that because Goldman asked whether questions about the first sale doctrine had been presented "as an argument against this kind of provision," he must have believed that Section 109(a) would not apply to Section 602(a). *See* U.S. Br. at 13. That accords Goldman's query far more significance than it can reasonably bear. Goldman's actual language appears to be attempting to ascertain the questioner's position on the proposed provision, and not thereby attempting to state Goldman's own views.

the distribution right from the long-established first sale doctrine, it would have done so expressly. Moreover, because it is clear from the language and structure of the statute that all components of the distribution right are subject to the first sale doctrine, there was no need for Congress to specify in the legislative history every possible application of Section 109(a). *See, e.g., Sedima, S.P.R.L.* v. *Imrex Co.*, 473 U.S. 479, 496 n.13 (1985) ("[C]ongressional silence, no matter how 'clanging,' cannot override the words of the statute."); *Mansell* v. *Mansell*, 490 U.S. 581, 592 (1989) ("[T]he absence of legislative history on this decision is immaterial in light of the plain and precise language of the statute; Congress is not required to build a record in the legislative history to defend its policy choices.").

II. APPLYING SECTION 109(a) TO SECTION 602(a) IS NOT AN IMPROPER EXTRATERRITORIAL APPLICATION OF THE COPYRIGHT ACT

L'anza and many of its *amici* argue—for the first time in this case—that applying Section 109(a) to Section 602(a) would be an impermissible extraterritorial application of the Copyright Act. *See* Resp. Br. at 26-27. It is not surprising that this argument was not presented below, because it has no merit. Adopting our interpretation would not extend the territorial reach of the Copyright Act in any way. Quality King has been sued in a United States court for actions that purportedly took place in this country. Allowing Quality King to raise a Section 109(a) defense would simply recognize that Quality King is the lawful owner of a lawfully made product and is therefore entitled to dispose of that product without incurring liability under the Copyright Act.

To make their extraterritoriality argument, L'anza and its *amici* are forced to mischaracterize our contentions. We do not contend, as they suggest, that L'anza's sale of its goods abroad was an exercise of its distribution rights that somehow exhausted those rights. *See, e.g.*, Resp. Br. at 27. Rather, we simply contend that Quality King is the "owner" of goods lawfully "made under this title" and is therefore entitled to the protections of Section 109(a)—*regardless* of where the

goods were made or first sold.[14] There is nothing in this contention that even remotely suggests an extraterritorial application of the Copyright Act.

Moreover, and in any event, there is nothing impermissible about a defense to a domestic copyright infringement action that might in some way involve events that occur abroad. Unlike the circumstances of *EEOC* v. *Arabian American Oil Co.*, 499 U.S. 244 (1991), nothing in this case constitutes an attempt "to enforce [U.S.] laws beyond the territorial boundaries of the United States." *Id.* at 248. As our *amici* have pointed out (*see* Brief of Costco Companies, *et al.* at 19-21), there are numerous provisions of the Copyright Act that depend in some way on events occurring abroad.[15] Indeed, liability under Section 602(a) is itself dependent on the copy having been acquired abroad. 17 U.S.C. § 602(a).[16]

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[14] Thus, although this case involves goods manufactured in the United States, it is not true (as one of L'anza's *amici* contends) that we concede the inapplicability of Section 109(a) to Section 602(a) or Section 106(3) claims involving goods manufactured abroad. *See* RIAA Br. at 16-17 & n.5. All of our arguments supporting the applicability of Section 109(a) to this case would apply to a case involving U.S.-copyrighted goods manufactured abroad under the explicit or implicit authorization of the U.S. copyright holder. Indeed, both the Government (*see* U.S. Br. at 29-30), and the court below (*see* Pet. App. at A9-A11), have criticized the flawed rationale under which some courts have refused to apply Section 109(a) to such cases.

[15] Contrary to the contentions of one of L'anza's *amici* (*see* Br. of the American Intellectual Property Law Association at 11), nothing in the language of Section 109(d) prevents the application of Section 109(a) to copies acquired abroad.

[16] This case has nothing to do with the issue addressed in *United Dictionary Co.* v. *G. & C. Merriam Co.*, 208 U.S. 260 (1908), cited by some of L'anza's *amici*. There, the Court construed a provision requiring a copyright notice in published works as not extending to editions published abroad because, although "Congress could attach what conditions it saw fit to its grant," it was "unlikely that it would require a warning to the public against the infraction of a law beyond the jurisdiction where that law was in force." *Id.* at 264. Here, by contrast, Quality King argues that it is the lawful "owner" of the goods in question and is entitled to the protection of Section 109(a) in a domestic infringement action, regardless of what actions may have occurred abroad.

III. THE POLICIES OF THE COPYRIGHT ACT SUPPORT QUALITY KING'S INTERPRETATION

A. L'anza's Position Would Not Advance the Policies of the Copyright Act

L'anza and its allies spend much of their briefs asserting that parallel imports are harmful. While we strongly disagree,[17] this Court is not the proper forum for these arguments, which L'anza is free to present to Congress. It is readily apparent, however, that these contentions have nothing to do with the interests that the Copyright Act was intended to protect and promote.

L'anza and its *amici* argue generally that preventing parallel importation is beneficial to manufacturers. In enacting the first sale doctrine, however, Congress determined that the harms of restricting the free flow of copyrighted works once they have been sold outweigh whatever monetary benefits may accrue to the copyright holder from such restrictions. For example, it is undisputed that the first sale doctrine prevents a copyright holder from attempting to segment *domestic* markets by using the Copyright Act to control its

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[17] For example, L'anza ignores the fact that parallel imports have resulted in billions of dollars of savings to U.S. consumers who, under L'anza's approach, would be paying substantially more for U.S.-manufactured goods than is paid by foreign consumers for precisely the same goods. *See* RIAA Br. at 13 (identical videocassettes with the same production costs can cost consumers more than six times as much in this country than abroad). It defies credulity to suggest that Congress—without any debate on the issue—would have extended the rights granted under the Copyright Act so as to allow copyright holders to use their limited monopoly on their product labels to maintain such inflated domestic prices to the detriment of U.S. consumers. In fact, numerous bills have been introduced in Congress to restrict parallel imports, and all of them have been unsuccessful. *See, e.g.*, S. 894, 102d Cong., 1st Sess. (1991); H.R. 3484, 101st Cong., 1st Sess. (1989); S. 626, 101st Cong., 1st Sess. (1989); S. 2903, 100th Cong., 2d Sess. (1988); S. 1671, 100th Cong., 1st Sess. (1987).

goods once it has sold them, no matter how lucrative it might be to do so. Thus, L'anza may not use the Act to promote different marketing schemes and price structures for the East and West coasts, notwithstanding any allegation that a reseller in one region would be taking unfair advantage of L'anza's marketing expenditures in another. There is no reason why a similar marketing scheme should be protected under the Act, and exempted from the first sale doctrine, merely because it involves an international strategy.

This was the position taken by the Government in *K Mart*, prior to its about-face in this case. There, the Government successfully urged this Court to uphold a rule that severely limited the ability of manufacturers to use trademark law to prevent parallel imports. The Government—relying in part on the first sale doctrine of trademark law—argued that "[t]here is no evidence that Congress intended, nor any reason why Congress would have wanted, to confer on a foreign manufacturer (or a U.S. manufacturer with a foreign subsidiary) government assistance in keeping its own goods out of the United States." Reply Br. for the Federal Petitioners at 7, Nos. 86-495 *et al.* (filed Sept. 22, 1987). Thus, as the Government explained, a manufacturer has numerous recourses for deterring parallel imports—such as differences in products, distinctive labeling or contractual arrangements —but is not entitled either to "protect[ion] * * * from foreign competition resulting from his own licensing" or to governmental "assistance in segmenting the international marketplace." Br. for the Federal Petitioners at 35, Nos. 86-495 *et al.* (filed Feb. 20, 1987); Suppl. Br. for the Federal Petitioners at 6, Nos. 86-495 *et al.* (filed Apr. 13, 1988).

The Government now contends that the differences between trademark and copyright law justify its opposite position in this case. *See* U.S. Br. at 28 n.17. But whatever the differences may be in other situations, the first sale doctrine that was the basis for the Government's position in *K Mart* is the same principle that supports Quality King's case here. As the Government explained, the regulations at issue in *K Mart* "reflect[ed] a settled principle of domestic trademark law: a

trademark owner * * * does not have the right, merely by virtue of owning the mark, to limit the resale of his *own* goods once he has put them into commerce." Suppl. Br. for the Federal Petitioners at 3, Nos. 86-495 *et al.* (filed Apr. 13, 1988) (emphasis in original). *See also id.* at 16 (regulations are "consistent with the basic notion that a trademark has never given its owner a right to restrict later distribution of its goods after it has sold them"). The same is true under copyright law: under long-established law, a copyright owner cannot limit the resale or other disposition of goods once the owner has put them into commerce. *See supra* at 2.

B. The Government's Recent Shift in Policy is Entitled to No Deference

The Government also advances a truly astounding argument in support of the judgment below. The Government contends that because Executive branch officials have taken a position disapproving of parallel importation of copyrighted material, and have memorialized that position in diplomatic cables and executive trade agreements, this Court should therefore interpret Section 602(a) as the Government wishes. The Government thus asks this Court to defer to its interpretation of a statute that it has no responsibility to administer[18] merely because executive officials have told another country that their interpretation is correct. *See* U.S. Br. at 6-7 (Court should adopt L'anza's position because Quality King's position is "contrary to representations made by the United States to foreign governments").

Such an argument subverts the role of the Court as the arbiter of the meaning of domestic statutes, and expands beyond all reasonable bounds the proper role of executive agreements in the interpretation of domestic law. It is, of course, "emphatically the province and duty of *the judicial*

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[18] As the Government itself notes (*see* U.S. Br. at 13 n.8), it has no role in the implementation of Section 602(a). Thus, there is no contention here that the Government's new policy on parallel imports is entitled to any deference under *Chevron U.S.A. Inc.* v. *Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984).

department to say what the law is." *Marbury* v. *Madison*, 5 U.S. (1 Cranch) 137, 177 (1803) (emphasis supplied). The Government, however, seeks to usurp that power and vest it instead in the Government's own trade negotiators. In effect, the Government argues that it should be able to amend the Copyright Act by construing it in international agreements.

The Government provides no support for its extraordinary assertion of executive power, and there is none. The only cited case, *Vimar Seguros Y Reaseguros, S.A.* v. *M/V Sky Reefer*, 515 U.S. 528 (1995), involved a multilateral agreement on arbitration that was specifically ratified by Congress and codified in the United States Code. *Id.* at 538. The Court held there that Congress intended to give effect to the arbitration requirements of the international agreement.

By contrast, the five agreements lodged by the Government are not—and the government does not assert them to be—either treaties ratified by the Senate[19] or executive agreements authorized or approved in any way by Congress.[20] They are therefore "sole executive agreements" negotiated by the President based on his own authority, and must rely for their efficacy on the inherent power of the President, unsupported by the power of Congress. *See Youngstown Sheet &*

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[19] The Government has also cited negotiating positions for the WIPO Copyright Treaty and the treaty on Protection of Performers and Producers of Phonograms. These treaties, currently pending before the United States Senate and awaiting ratification in a number of other countries, did not adopt the Administration's proposed position on parallel imports.

[20] These trade agreements were not subject to the safeguards of the "fast track" negotiating authority which the Administration possessed when most of these agreements were negotiated but chose not to use for these agreements. *See* Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 Among these safeguards was the requirement that government positions on trade issues must be arrived at after adequate consultation with Congress and the public. *See id.* §§ 1102(d), 1111(a). The Government has not cited—and we have been unable to locate—any mention of congressional or public consultation by the Government on the position advanced in its brief in this case.

Tube Co. v. *Sawyer*, 343 U.S. 579, 637 (1952) (Jackson, J., concurring) ("When the President takes measures incompatible with the expressed or implied will of Congress, his power is at its lowest ebb * * * ."). They may not supersede or contradict statutes enacted by Congress, particularly one dealing with a matter—domestic intellectual property rights—primarily in the congressional domain.[21] Nothing in *Vimar* supports the proposition that the executive can influence this Court's resolution of disputed questions of statutory law through the "bootstrap" technique of memorializing its preferred interpretations in trade agreements that have not been ratified by Congress. The Court would not give effect to *any* congressional intent or purpose by construing a statute with reference to sole executive agreements negotiated without authorization or approval by Congress.[22]

The Government's argument, moreover, is all the more outrageous because at the time the Government sent the cables and signed the cited agreements, it knew that the only circuit court to have ruled on the statutory question had reached the opposite conclusion. *See Sebastian Int'l, Inc.* v. *Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988); Department of State Telegram No. 384388 at 9-10 (Nov. 13, 1990) (lodged with Court). Thus, to the extent the Government now fears embarrassment from a ruling by this Court in Quality King's favor, that embarrassment is entirely of the

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[21] *See United States* v. *Guy W. Capps, Inc.*, 204 F.2d 655 (4th Cir. 1953), *aff'd on other grounds*, 348 U.S. 296 (1955); *Restatement of the Law (Third) of the Foreign Relations Law of the United States*, § 115 comm. c (1986) ("a sole executive agreement on a matter within the express constitutional authority of Congress * * * will not be given effect in the face of an inconsistent statute").

[22] We do not question the authority of the Executive branch to enter into these agreements. Rather, we argue that these agreements cannot provide any assistance in interpreting the earlier Copyright Act of 1976, and that to the extent they contradict the statute, the statute must prevail.

Government's own making.[23] If the Government wishes to retreat from its own position which the Court upheld in *K Mart*, and to apply a new policy on parallel imports, it may seek statutory changes after open, public debate. It may not, however, negotiate trade agreements out of the public eye and then use the mere existence of these agreements to influence this Court's legal rulings regarding the meaning of Congressional enactments.

CONCLUSION

For the foregoing reasons and the reasons set forth in our opening brief, the judgment of the Court of Appeals should be reversed.

Respectfully submitted,

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[23] No holding by this Court could subject the United States to liability under the cited agreements, all of which provide only for "consultations" rather than any binding dispute settlement.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,

Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States
Court of Appeals for the Ninth Circuit

BRIEF OF AMICI CURIAE THE RECORDING INDUSTRY ASSOCIATION OF AMERICA, THE MOTION PICTURE ASSOCIATION OF AMERICA, THE ASSOCIATION OF AMERICAN PUBLISHERS, AMERICAN FILM MARKETING ASSOCIATION, BUSINESS SOFTWARE ALLIANCE, THE INTERACTIVE DIGITAL SOFTWARE ASSOCIATION, NATIONAL MUSIC PUBLISHERS' ASSOCIATION, AND INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE IN SUPPORT OF RESPONDENT

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INTEREST OF AMICI CURIAE[1]

Amici curiae are trade associations representing the interests of the principal copyright-based industries in the United States, including sound recordings, motion pictures, computer software, books, and musical compositions. Copyright-based industries contribute in excess of $300 billion to the U.S. economy, and grow at a real annual rate that is twice the growth rate of the U.S. economy as a whole. While the United States continues to experience large trade deficits, copyright industries consistently post significant balance-of-trade surpluses.[2]

Due to the significant foreign sales of U.S. copyrighted works, *amici curiae* and their member companies are regularly harmed by trafficking in so-called "parallel imports." Each year tens of billions of dollars of sound recordings, motion pictures, software products, books, and works embodying musical compositions are produced in the United States and abroad for foreign sale and distribution. Significant quantities of these works are imported into and distributed in the United States without the authorization of the U.S. copyright owners. Such activities disrupt the marketing plans of the U.S. copyright owners and deprive them of substantial sales and revenues. Because of the territorial scope of copyright protection and licensing

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1 *Amici curiae* have received written letters of consent to file this brief from petitioner and respondent, and are filing these consent letters separately with the Clerk of the Court. No counsel for either of the parties authored this brief in whole or in part. No person or entity, other than *amici curiae*, their members and their counsel, made a monetary contribution to the preparation or submission of this brief.

2 *See* STEPHEN E. SIWEK & GALE MOSTELLER, COPYRIGHT INDUSTRIES IN THE U.S. ECONOMY: THE 1996 REPORT (International Intellectual Property Alliance 1996).

practices, *amici* regularly seek enactment and enforcement throughout the world of parallel import protections against unauthorized cross-border movements of copyrighted works.

Amici curiae therefore have a vital stake in the outcome of this litigation: A decision reversing the Ninth Circuit's holding would have serious economic consequences for their ability to market successfully their works in the U.S. market, and would upset the delicate balance of rewards and incentives Congress struck in enacting the Copyright Act as a spur to creativity for the public good. A decision undermining the strict provision against parallel imports in the United States Copyright Act would also adversely affect *amici*'s ability to seek enactment of similar protections under foreign laws.

The Recording Industry Association of America, Inc. ("RIAA") is a not-for-profit corporation, membership in which consists of sound recording producers and phonorecord manufacturers. RIAA's members create, manufacture or distribute more than ninety percent of the authorized sound recordings in the United States, including longplaying records, cassette tapes and compact discs. Sound recordings comprise a $12.5 billion domestic industry, and the foreign sales of U.S. recorded music amount to more than $12 billion, representing approximately sixty percent of the world's consumption of music. Among RIAA's purposes are to oversee copyright infringement litigation for member companies, combat all forms of music piracy throughout the world, and ensure that copyright legislation maintains the appropriate balance for fostering creativity in music through increased investment, production and distribution.

The Motion Picture Association of America, Inc. ("MPAA") is a not-for-profit corporation founded in 1922 as the trade association of the American film industry. MPAA promotes the interest of the motion picture industry in the

United States by seeking to protect the rights of copyright owners; serving as the advocate for the major producers and distributors of motion pictures, television programs and home video; directing an antipiracy program to protect U.S. films, television programming and home video throughout the United States; and helping the industry maintain high standards and public goodwill. MPAA represents seven of the largest producers and distributors of filmed entertainment for theatrical, television and home video distribution. MPAA members distribute motion pictures in some eighty countries throughout the world and have been prime beneficiaries of the protections afforded by copyright, including protections against the unauthorized importation of copies.

The Association of American Publishers, Inc. ("AAP") is the major national association in the United States of publishers of general books, textbooks and educational materials. Its approximately 200 members include most of the major commercial book publishers in the United States and many smaller or non-profit publishers, including university presses and scholarly associations. AAP members publish hardcover and paperback books in every field, including general fiction and non-fiction; poetry; children's books; textbooks; religious books; reference works; scientific, medical, technical, and professional books and journals; and classroom instructional and testing materials. AAP's primary functions are to promote the status of publishing around the world, assist in protecting its members' copyrights at home and abroad, and defend intellectual freedom at home and the freedom of written expression worldwide.

American Film Marketing Association ("AFMA") is a non-profit organization whose members produce and license the international rights to independent English-language films. Comprised of 130 members, AFMA members generate international revenues in excess of $1.6 billion annually.

Business Software Alliance ("BSA") promotes the growth of the software industry through its international public policy, education, and enforcement programs in 65 countries throughout North America, Europe, Asia, and Latin America. BSA worldwide members include the leading publishers of software for personal computers. BSA operates more than fifty hotlines around the world for callers seeking information about copyright matters or to report suspected incidents of unauthorized copying of software.

The Interactive Digital Software Association ("IDSA") represents the U.S. interactive entertainment software industry. The IDSA membership includes 45 of the leading U.S. publishers of interactive entertainment software such as video and computer games for all platforms, including video game consoles, personal computers, and the Internet. The IDSA offers services to entertainment software publishers including a global anti-piracy program, business and consumer research, government relations, and First Amendment and intellectual property protection efforts.

National Music Publishers' Association ("NMPA") is a trade association representing over 600 U.S. businesses that own, protect, and administer copyrights in musical works. For eight decades, NMPA has served in the national and international arenas as the voice of the American music publishing industry. NMPA's wholly-owned subsidiary, The Harry Fox Agency, Inc. ("HFA"), acts as agent for approximately 17,000 U.S. publishers in connection with the issuance of mechanical licenses, covering the majority of musical compositions contained in U.S. records, tapes, compact discs, and imported phonorecords. Through reciprocal representation agreements with similar collecting societies throughout the world, HFA provides royalty collection and distribution services to its publisher principals on a global basis. HFA also licenses musical works on a

worldwide basis for use in films, commercials, television programs, and other types of audio visual media.

The International Intellectual Property Alliance ("IIPA") is a coalition representing the U.S. copyright-based industries -- computer software, films, videos, music, recordings, and books -- in efforts to improve international protection of copyrighted works. It is comprised of the seven trade associations that are *amici curiae* in this brief.

SUMMARY OF ARGUMENT

The issue presented in this case involves the interplay of provisions of the Copyright Act that are of vital significance for copyright-based industries. The section 602(a) right against unauthorized imports is critical for ensuring copyright owners control over the timing, price, and content of their releases within the U.S. market. Petitioner's attempt to cast the issue before the Court, in the factual situation presented, as an attempt to use the copyright law to circumvent the limitations of the trademark and customs laws should not encourage evisceration of a statutory right that is of great importance to copyright-based industries.

Petitioner's theory of the interplay of the three provisions at issue -- section 602(a), section 106(3), and section 109(a) -- is fundamentally flawed. The first sale doctrine of section 109(a) is not a defense to claims against unauthorized acts of importation. By its terms, it authorizes an owner of a legitimate copy to sell or otherwise dispose of possession of that particular copy, not to import the copy into the United States.

Nor does the first sale doctrine provide a defense to subsequent U.S. sale of copies imported without the consent of the copyright owner when those copies were initially distributed outside the United States. For nearly a century, this Court has held that the Copyright Act has no application

to acts occurring outside the boundaries of the United States. A copyright owner's distribution of copies abroad does not constitute an exercise of the exclusive distribution under section 106(3) of the U.S. Copyright Act. Rather, a foreign distribution of copies is governed by foreign copyright law.

Section 109(a) of the U.S. Copyright Act, however, limits only the section 106(3) right and cannot limit or exhaust distribution rights conferred by foreign law. Because a copyright owner thus retains a valid and subsisting section 106(3) right with respect to copies distributed abroad, the owner may, without limitation of the first sale defense, maintain a section 602(a) claim against unauthorized importation of copies distributed abroad, and a section 106(3) claim against subsequent U.S. sale of such copies. To hold otherwise would be to render section 602(a) virtually meaningless, to disregard nearly a century of consistent jurisprudence concerning the territorial limitations of the Copyright Act, and to rewrite the Copyright Act's limitations on exclusive rights of copyright owners as affirmative rights of copyright users.

ARGUMENT

UNAUTHORIZED IMPORTATION AND SUBSEQUENT SALE OF GOODS DISTRIBUTED BY THE COPYRIGHT OWNER OUTSIDE THE UNITED STATES INFRINGE THE COPYRIGHT OWNER'S EXCLUSIVE DISTRIBUTION RIGHT

I. This Case Involves Statutory Provisions Of Great Significance To Copyright-Based Industries

Petitioner would have this Court base a narrow interpretation of the section 602(a) right on L'anza's use of allegedly "limited creative rights" in "hair care products [that] happen to contain a small amount of copyrighted material on

the labels." Brief for Petitioner ("Pet. Br.") at 9. *See also* Brief of AFTA as *Amicus Curiae* In Support of Petitioner at 3. Noting that "manufacturers have failed in their attempts to use trademark and customs laws to further domestic price discrimination," petitioner echoes the Third Circuit in *Sebastian*, that "[t]o allow L'anza to use those labels to further a private commercial strategy of maintaining inflated prices in this country would subvert the true purposes of the Copyright Act" to motivate creative activity. Pet. Br. at 33. *See generally Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1094 (3d Cir. 1988).

The issue before this Court has implications beyond the ability of manufacturers to protect copyrighted labels on consumer goods. The legal principles that petitioner and its supporting *amici* would have this Court adopt in interpreting the Copyright Act would have devastating consequences for the protections provided under the Act to industries developing creative works in which the principal value is copyright. For creators and producers of motion pictures, sound recordings, books, musical compositions, and software products, including *amici*, the rights conferred by section 106(3) and section 602(a) are not merely incidental to the Copyright Act's structure of incentives to create original works. Rather, for copyright-based industries, the right to control initial distribution of original works within the United States is integral to the Copyright Act's protections designed to foster creativity for the public good.

A. Section 106(3) And Section 602(a) Provide Copyright Owners Rights Against Distinct Acts Of Infringement

Section 106 of the Copyright Act grants to copyright owners several exclusive rights with respect to copyrighted works, "[s]ubject to" specified limitations set forth in "sections 107 through 120." 17 U.S.C. § 106. Among these exclusive rights is the right "to distribute copies or

phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3).

The distribution right in section 106(3) is an integral component of the balance of incentives enacted by Congress in the Copyright Act. By recognizing a distinct exclusive distribution right, the Copyright Act ensures that, in addition to preventing unauthorized reproductions of copyrighted works, an owner may prohibit unauthorized exploitation of such works through public distribution. "Therefore, granting the distribution right is a necessary supplement to the reproduction right in order fully to protect the copyright owner." 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT (1997) § 8.12[A], at 8-142.

However, as an affirmative right, section 106(3) is not simply a supplement to the right to control reproduction of copyrighted works. "[I]t would be anomalous indeed if the copyright owner could prohibit public distribution of his work when this occurred through unauthorized reproduction, but were powerless to prevent the same result if the owner's own copies (or copies authorized by him) were stolen or otherwise wrongfully obtained and thereafter publicly distributed." *Id.* The distribution right, subject to statutorily enumerated limitations, thus allows a copyright owner the exclusive right to control distribution of legitimate as well as pirated copies, and to prevent others from distributing legitimate copies of copyrighted works without the owner's consent.

As this Court has recognized, the distribution right set forth in section 106(3) is in essence "a distinct statutory right . . . 'to control the first public distribution of an authorized copy'" of a copyrighted work. *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 552 (1985) (quoting 1976 House Report). The Copyright Act's design "to motivate the creative activity of authors and inventors by

the provision of a special reward," *id.* at 546 (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984)), is vitally furthered by grant of the right to control distribution of authorized as well as unauthorized copies. The section 106(3) right "encompasses not only the choice whether to publish at all, but also the choices of when, where, and in what form first to publish a work." *Id.* at 564.[3]

Recognizing the importance of the copyright owner's right to control initial distribution of copyrighted works, Congress also enacted Section 602 as a broad right of action against imports of authorized and piratical copies acquired outside the United States.[4] Section 602(a), governing unauthorized importation of nonpiratical copies, confers upon the copyright owner the right to prevent acts that are distinct from acts of unauthorized distribution. The section 106(3) exclusive distribution right allows a copyright owner to prevent the unauthorized "sale or other transfer of ownership" or possession of a copyrighted work "to the public." By contrast, section 602(a) provides a right of action against unauthorized importation of copies into the United States -- *whether or not those copies are distributed or sold*

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3 In *Harper & Row*, this Court alternatively stated that section 106(3) confers a right of "first publication" and a right of "first distribution," and used "publication" and "distribution" interchangeably in referring to the section 106(3) right. Although distribution may be a form of publication, publication under the statute is a broader concept that encompasses not only "the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending," but also includes "[t]he *offering to distribute* copies or phonorecords to a group of persons for purposes of further distribution, public performance, or public display." 17 U.S.C. § 101 (emphasis added). Accordingly, publication of a work does not necessarily constitute exercise of the section 106(3) distribution right.

4 The text of section 602 is set forth as an appendix to this brief.

to the U.S. public, and whether or not possession of or control over those copies ever transfers hands.

Importation does not, by definition, necessarily involve sale, transfer of possession, or other distribution. It entails only the carrying of copies or goods across borders. *See* BLACK'S LAW DICTIONARY (6th ed. 1990) at 755 ("Importation -- The act of bringing goods and merchandise into a country from a foreign country.") (citing *Cunard Steamship Co. v. Mellon*, 262 U.S. 100 (1923)). *See also* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 170 (1976) (section 602(a) allows actions against unauthorized importers of goods acquired abroad "even before any public distribution in this country has taken place"); S. Rep. No. 473, 94th Cong., 1st Sess. 152 (1975) (same). Nor does importation necessarily involve dissemination to the public, as does distribution under section 106(3).

If the importation right did not allow copyright owners to bar acts that were distinct from those actionable under section 106(3) alone, there would be no need for section 602: Unauthorized sale or other U.S. distribution to the public of imported copies would be, and is, actionable by a copyright owner as an infringement of the section 106(3) right. As petitioner notes, section 602(a) adds another weapon in the copyright owner's arsenal above and beyond the distribution right -- the right to prevent unauthorized importation of copies before they are distributed or dispersed to third-party U.S. vendors or purchasers. Pet. Br. at 24.

B. For Copyright-Based Industries, Section 602(a) Protects Core Aspects Of The Exclusive Distribution Right

Contrary to petitioner's position, invocation of section 602(a) for copyright-based industries is not a means of effectuating an end-run around limitations to the parallel import right under the trademark and customs laws. Rather,

preventing unauthorized importation and distribution of copies acquired abroad enables copyright owners to control the timing, content, packaging, pricing, and (in some instances) quality of their releases to the American public -- i.e., the crucial "choices of when, where, and in what form first to publish a work" integral to the section 106(3) right. *Harper & Row*, 471 U.S. at 564. Control over these elements of copyright-based industries' territorial distribution plans is essential to the balance of incentives struck by Congress in the Copyright Act.

1. Timing

The distribution of copyright-based products often follows a pattern of sequential release across geographic markets and among different media. "Staggered" release dates enable copyright owners to coordinate and maximize pre-release publicity for anticipated distributions of works within particular regions. Frequently, for example, distribution of a book or sound recording may be launched initially in a home market abroad, and then subsequently in the United States so that national release may coincide with a U.S. publicity "tour" by the author or recording artist.

Staggered release may serve other purposes as well. A sound recording may be released in markets outside the United States in order to create a popular "buzz" or crescendo of demand before the recording is released in the large U.S. market. Similarly, a foreign film may be initially distributed abroad, with distribution in the United States occurring if and after international demand for the film reaches a particular level. Or in some cases, U.S. films anticipated to have much success may be first released outside the United States, such as the initial release of "Toy Story" in Mexico, to diminish incentives for international piracy. In the book publishing industry, differences in seasonal timing involving the start of the "fall" semester in the

southern and northern hemispheres may create the need for timed release of college textbooks.

Parallel imports and distribution of copyrighted works acquired abroad interfere with copyright owners' ability to exploit their works within a region through control over when a work is first distributed and through coordination of the initial distribution with pre-release publicity. When copies acquired abroad are brought into the country, the copyright owner's exclusive right to control the manner and timing of their distribution within the United States is undermined.

The problem is particularly heightened for copyrighted works that follow a sequential distribution pattern for different formats or media, as well as for different geographic markets. In the book publishing industry, the release of hardback and paperback versions is staggered. A work first distributed or released abroad may progress to paperback version in that market while the title is still in hardback within the United States. Parallel imports of the paperback versions of the work in such instances interfere with the U.S. copyright owner's right to exploit fully the "window" for hardback release.

2. Pricing

Parallel imports also undermine copyright owners' ability to exercise their right to control the pricing of their works, a critical component of the distribution right. Wide price variations between domestic and international markets for copyright-based products are important and necessary for copyright-based industries to exploit their products internationally and to further develop international markets. Such price variations are the result of local demand, local ability to pay, local taxes, local regulations and international treaty obligations, local manufacturing and distribution costs, and local infrastructure.

For example, demand for copyright-based products varies regionally to a unique degree based upon differing cultural tastes and characteristics. Moreover, in the music industry, in particular, different royalty structures mandated by statute or licensing societies in different jurisdictions contribute to regional variations in price. In the book publishing industry, compulsory license provisions in international treaties require publishers in developed countries to grant reprint or translation licenses to developing country publishers "at a reasonable rate" if requested, or else be subject to compulsory license provisions that allow developing country publishers to reprint or translate at prescribed rates. In all copyright-based industries, variations in characteristics of local infrastructure such as household penetration of video cassette recorders, televisions, computers, and compact disc players contribute to national variations in the price of copyrighted works.

As copyright-based industries seek to enter and develop new markets, they try to price their products in a way that makes them attractive to local consumers, while permitting the industries to generate positive net income. This pricing structure is made economically viable by the relatively low marginal cost of creating additional copies of copyrighted works compared to the significant expense of creating the work itself. As a result of this strategic pricing, for example, the price of a legitimately produced videocassette of a film in the United States can be more than six times the price of a legitimate copy of the same film in another country. Likewise, the price of educational materials in developing countries is vastly reduced by book publishers in order to make products affordable in local markets, encourage education, discourage piracy, and build literacy and good relations.

By strategically pricing their products, copyright-based industries encourage local demand and development of

local infrastructure for such products. This has at least two significant benefits. First, it encourages further creative activity by promoting markets from which copyright owners, which have made a significant investment in producing works, can recoup such investment. In this way, strategic pricing serves one of the fundamental purposes of the Copyright Act -- to promote creative expression by allowing copyright owners to realize economic benefit from their creations. Second, development of local demand for copyrighted works promotes the wide dissemination of copyrighted works. Strategic pricing in this way serves the principal purpose of the Copyright Act -- "promoting broad public availability of literature, music, and the other arts" and thus creating a private incentive "to stimulate artistic creativity for the general public good." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

For copyright owners, the downside to the variation in pricing between the domestic and international markets is that it becomes economically viable and profitable for third parties to import into the United States legitimate copyrighted works distributed abroad, thus creating direct competition with the same works being exploited domestically by the copyright owner. This incentive and ability to exploit price differentials through cross-border movement of copies is likely to increase in the future, as language barriers throughout the world continue to erode and more English-language versions of copyrighted works are distributed abroad. Moreover, with technological innovations such as the advent of the digital versatile disc ("DVD") format, motion pictures released on DVD in many foreign markets will be formatted in multiple languages, including English and home country languages. This may increase the incentive for parallel imports into the United States of DVD products that are sold abroad at reduced prices, but that are capable of being played for U.S. audiences.

Importation and distribution of copies acquired at reduced prices outside the United States derogate the Copyright Act's mandate of allowing the copyright owner to control the pricing and distribution of works and, consequently, the Act's purpose of fostering creativity.

3. Content

Because of the varying cultural appeal of many copyright-based works, owners may distribute their works with varying content in different national markets. Due to censorship or marketing reasons, as well, a title in one market may have varied content from the U.S. release. For example, a compact disc released in a foreign country may contain different or additional "tracks" than a similar recording by the same artist released in the United States. Yet versions released for foreign distribution will, if imported, likely compete directly with similar copyrighted works distributed in the United States. Importation of copies intended for audiences abroad, but available in the United States, therefore interferes with the copyright owner's creative decision concerning what to distribute in a given market, and displaces sales of the U.S. works.

In view of the significance for copyright-based industries of variations in timing, pricing, and content of products released in different markets, the section 602(a) right to prevent unauthorized imports of copyrighted works is critical to protecting core elements of the exclusive distribution right conferred by the Copyright Act.

II. The First Sale Doctrine In Section 109(a) Is Not A Defense To Unauthorized Importation Or Subsequent Sale Of Copies Distributed By The Copyright Owner Outside The United States

Section 109(a) of the Copyright Act limits the distribution right by allowing the owner of a lawfully made

copy to sell or dispose of that copy without permission of the copyright owner. It provides in relevant part:

> § 109. *Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord.* (a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of the copy or phonorecord.

17 U.S.C. § 109. Section 109(a) recodifies the "first sale" doctrine initially enacted in the 1909 Copyright Act and first articulated by this Court in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). As courts have recognized repeatedly, the "first sale" doctrine of section 109(a) reflects a balance between protecting the distribution rights of the copyright owner, and protecting against restraints on alienation that would limit rights of the owner of the tangible object or copy in which the copyrighted work is embodied. *See, e.g., Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988).

There is no issue in this case that the first sale doctrine does not provide a defense to claims under section 602(b) against unauthorized importation of *piratical* copies, or to section 106(3) claims against subsequent U.S. sale of imported piratical copies. Section 109(a) on its face applies only to sale or disposition of copies "lawfully made under this title." No reasonable construction would support an argument that pirated copies, wherever made, are "lawfully made under this title."

Nor is there any contention that section 109(a) provides a defense to section 602(a) claims against

unauthorized importation of nonpirated copies that are *manufactured outside the United States*, or to a section 106(3) claim against U.S. sale after importation of such copies. Indeed, virtually every court to date that has considered the issue has held that section 109(a) in no way limits a copyright owner's rights with respect to copyrighted goods manufactured and distributed abroad.[5]

The only issue before the Court is the interplay of section 109(a) and section 602(a) when the goods at issue are legitimately manufactured in the United States and initially

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[5] *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994) (unauthorized importation and sale of perfume bottles manufactured and first sold in France not protected by the first sale defense), *cert. denied*, 514 U.S. 1004 (1995); *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991) (unauthorized importation and sale of phonorecords manufactured and sold abroad is actionable infringement not protected under the first sale doctrine), *cert. denied*, 505 U.S. 1206 (1992); *CBS Inc. v. Casino Record Distributors of Florida, Inc.*, 654 F. Supp. 677 (S.D. Fla. 1987) (record store proprietor's sale and distribution of phonorecords manufactured abroad and imported without copyright owner's authorization constituted infringement); *Hearst Corp. v. Stark*, 639 F. Supp. 970 (N.D. Cal. 1986) (first sale doctrine not a defense to unauthorized importation of copyrighted books manufactured and sold in United Kingdom); *Columbia Broadcasting Sys., Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983) (first sale doctrine not a defense to unauthorized importation of phonorecords manufactured and sold in Philippines), *aff'd mem.*, 738 F.2d 421 (3d Cir. 1984); *see also Original Appalachian Artworks, Inc. v. J.F. Reichert, Inc.*, 658 F. Supp. 458, 462-463 (E.D. Pa. 1987) (unauthorized importation and sale of dolls manufactured in Europe constituted copyright infringement under section 602(a)); *Nintendo of America, Inc. v. Elcon Industries, Inc.*, 564 F. Supp. 937, 943-944 (E.D. Mich. 1982) (unauthorized importation of copyrighted games manufactured in Japan is actionable under section 602(a)). *But see Red Baron-Franklin Park, Inc. v. Taito Corp.*, 9 U.S.P.Q.2d (BNA) 1901, 1989 Copy. L. Rep. (CCH) ¶ 26,352 (E.D. Va. Aug. 29, 1988) (section 602(a) claim against importation of game boards manufactured and sold in Japan barred by first sale doctrine).

distributed abroad. According to petitioner, "[t]he principal question in this case is whether Section 602(a), like the other components of the distribution right, is limited by the first sale doctrine of Section 109(a)" in such circumstances. Pet. Br. at 13. In arguing that section 109(a) provides a defense to claims of unauthorized importation and subsequent U.S. sale of legitimate copies distributed outside the United States, petitioner proposes that section 109(a) creates an "unqualified" "safe harbor" and a "blanket authorization" for the owner of a lawfully made copy to sell or otherwise dispose of the possession of that copy, regardless of how the copy was acquired. Pet. Br. at 14-15.

Contrary to petitioner's position, the first sale doctrine is not a defense to unauthorized acts of importation. By its terms, it authorizes an owner of a legitimate copy to sell or otherwise dispose of possession of that particular copy, not to import the copy into the United States.

Nor does the first sale doctrine provide a defense to subsequent U.S. sale of copies imported without the consent of the copyright owner when those copies were initially distributed outside the United States. For nearly a century, this Court has held that the Copyright Act has no application to acts occurring outside the boundaries of the United States. A distribution of copies abroad does not constitute an exercise of the exclusive distribution under section 106(3) of the U.S. Copyright Act, but rather is an act protected (if at all) by rights conferred under foreign copyright law.

Section 109(a) of the U.S. Copyright Act, however, limits or "exhausts" only the section 106(3) right and cannot limit or exhaust distribution rights conferred by foreign law. Because a copyright owner retains a valid and subsisting section 106(3) right with respect to copies initially distributed abroad, the owner may, without limitation of the first sale defense, maintain a section 602(a) claim against unauthorized

importation of copies distributed abroad, and a section 106(3) claim against subsequent U.S. sale of such copies.

A. The First Sale Doctrine Is Not A Defense To Section 602(a) Claims Against Unauthorized Importation Of Goods Acquired Outside The United States

The language of section 109(a) and the structure of the Copyright Act establish that the first sale doctrine is not a defense to unauthorized acts of importation.

First, section 109 by its terms only allows an owner of a particular tangible copy of a copyrighted work to "*sell* or otherwise *dispose of the possession* of the copy or phonorecord." 17 U.S.C. § 109(a) (emphasis added). It does not grant the owner of that copy the right to import the copy into the United States. Importation is distinct from sale or disposition. As noted, importation entails only the carrying of copies or goods across borders, and does not, by definition, necessarily involve sale or transfer of possession.

If importation were not distinct from sale or distribution, there would be no need for section 602: Unauthorized sale or other disposition of possession of imported copies in the United States would be, and is, actionable by a copyright owner under section 106(3). Moreover, there would be no need for the various exceptions to section 602(a) liability expressly set forth by Congress. In particular, there would be no need for the exception to section 602(a) which allows unauthorized importation of copies "forming part of [a] person's personal baggage" if such copies are "for the private use of the importer and not for distribution." 17 U.S.C. § 602(a)(2). Importation of a few copies "for private use and not for distribution" cannot, by definition, constitute a distribution "to the public." If importation were a form of sale or other distribution, or otherwise limited by the first sale doctrine, the "private use"

exception to the importation right would be wholly superfluous. *See generally Feist Publications, Inc. v. Rural Telephone Serv. Co.*, 499 U.S. 340, 358 (1990) (in interpreting Copyright Act, noting "the established principle that a court should give effect, if possible, to every clause and word of a statute") (quotation omitted).

Second, the plain language of section 109(a) defines its applicability as limited to claims under section 106(3). Section 109(a) states that it applies "[n]otwithstanding the provisions of section 106(3)." The section nowhere states that it also applies notwithstanding section 602(a).

Third, the title of section 109, "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord," clearly states that the first sale defense limits only "exclusive rights" under the Copyright Act. *See, e.g., Immigration and Naturalization Serv. v. National Center for Immigrants' Rights, Inc.*, 502 U.S. 183, 189-190 (1991) (title of statute or section aids in interpretation of legislation's text); *see generally* 2B NORMAN J. SINGER, SUTHERLAND STATUTORY CONSTRUCTION (5th ed. 1992) § 54.07, at 267 (same). Section 602, however, is not denominated an "exclusive right" under the Act, is not included in section 106's list of exclusive rights, and is not part of Chapter 1 of the Copyright Act which governs the "subject matter and scope of copyright." The limitations on exclusive rights therefore do not apply to section 602. Moreover, section 501, which provides for private infringement actions against "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . *or* who imports copies or phonorecords into the United States in violation of section 602," 17 U.S.C. § 501(a) (emphasis added), recognizes section 602 as separate and apart from the rights set forth and limited "by sections 106 through 118."

Accordingly, by its express language, statutory title, and placement within the Act's structure, section 109(a) limits only a copyright owner's exercise of the exclusive distribution right, and not the importation right. The first sale doctrine therefore may not be invoked as a defense to a section 602(a) claim against acts of unauthorized importation of copies first distributed abroad.[6]

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6 Quality King suggests in passing, for the first time in its brief on the merits before this Court, that it was not the actual importer of the goods in question. Pet. Br. at 4-5 & n.1, 14 n.6. The issue whether an entity can be liable for copyright infringement for subsequently selling goods that were imported without authorization, if it did not engage in the acts of importation, is not properly before the Court. Despite the district court's order enjoining Quality King from importing as well as selling the goods at issue, Quality King did not argue in the Ninth Circuit that it was not the importer. *See Delta Airlines, Inc. v. August*, 450 U.S. 346, 362 (1981) (even question presented in petition but "not raised in court of appeals . . . is not properly before us"). Nor did Quality King otherwise preserve the issue for review in its question presented in the petition for certiorari. *See* U.S. Supreme Court Rule 14.1(a); *Yee v. Escondido*, 503 U.S. 519, 535-538 (1992).

Moreover, The Ninth Circuit, at numerous points in its decision below, concluded that Quality King had acquired L'anza's hair care products outside the United States and imported them without authority of L'anza. *See, e.g.*, Appendix to Petition for Certiorari ("Pet. App.") at A2 (products had been purchased from a distributor in Malta and "imported (without L'anza's authorization) by Quality King Distributors"); Pet. App. at A2-A3 (Maltese distributor "sold the products to Quality King Distributors, which purchased in their entirety the three shipments that had been sent to the United Kingdom and imported the products back into the United States without L'anza's permission"); Pet. App. at A17 ("the record indicates that Quality King purchased the L'anza products from a subdistributor in Malta"). Finding that section 109(a) does not provide a defense to claims under section 602, the Ninth Circuit thus held that Quality King was liable for infringement of L'anza's section 106(3) distribution right by importing goods acquired abroad without authority of L'anza.

B. The First Sale Doctrine Is Not A Defense To Section 106(3) Claims Against Sale After Importation Of Copies Initially Distributed By The Copyright Owner Outside the United States

Petitioner nevertheless argues that L'anza may maintain a claim under section 602(a) only if subsequent U.S. distribution of nonpirated imported products by Quality King "would infringe the U.S. copyright owner's exclusive rights delineated in Section 106(3)." Pet. Br. at 19. Petitioner states that "[o]nce the copyright owner has parted with ownership of a copy, Congress intended that his distribution rights would 'cease'" with respect to that copy pursuant to the first sale doctrine of section 109(a), Pet. Br. at 21, such that there would be "left no such [section 106(3)] right to be infringed under Section 602(a)," Pet. Br. at 15.

Petitioner's argument misses the point at one critical juncture. Even if this Court were to accept that the right of action against unauthorized importation set forth in section 602(a) is contingent upon subsistence of the section 106(3) right with respect to the particular copies, such a holding would have no bearing on this case. The district court below concluded, as a finding of fact, that the copyrighted goods in question had been initially distributed abroad by L'anza. *See* Pet. App. at B7 ("the works were manufactured in the United States and sold abroad"). Quality King has never contested that finding, either in the Ninth Circuit or in its petition for certiorari before this Court. Indeed, in its brief on the merits, petitioner consistently maintains that L'anza shipped the goods for distribution outside the United States. *See, e.g.*, Pet. Br. at 4 ("L'anza shipped the goods from the United States for delivery to L. Intertrade in Malta, . . . [understanding] that they would be distributed in Malta and 'possibly Libya.'"); Pet. Br. at 15 ("L'anza sold the products to its United Kingdom distributor").

Section 106(3) grants to copyright owners the exclusive right to distribute publicly within the United States works that are the subject of a valid U.S. copyright. A foreign distribution is not an exercise of the distribution right under section 106(3) of the Copyright Act. L'anza did not exercise its section 106(3) right of U.S. distribution when it "sold the products to its United Kingdom distributor." Pet. Br. at 15. Its section 106(3) right with respect to those copyrighted goods accordingly was not extinguished as a result of the distribution or "first sale" abroad so as to bar a claim seeking to prevent subsequent importation or U.S. sale of those goods.[7]

In *Equal Employment Opportunity Commission v. Arabian American Oil Company*, 499 U.S. 244, 248 (1991) (citations omitted), this Court reaffirmed the "longstanding principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.' This 'canon of

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[7] Petitioner does not contend in this Court, and has not argued at any point in this litigation, that, with respect to the goods at issue, any acts of sale or distribution by L'anza occurred within the United States. Indeed, under well-settled principles of copyright law, the act of transferring goods to a carrier for shipment to a purchaser abroad does not constitute an act of distribution under the Copyright Act. *See, e.g., Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 851 (2d Cir. 1963) (rejecting contention that bailees including shippers have title to copyrighted works in their possession); *Little, Brown and Co. v. American Paper Recycling Corp.*, 824 F. Supp. 11, 16 (D. Mass. 1993) (transfer of goods for destruction created a bailment and not a sale); *see also* Pet. Br. at 26 (bailee, such as shipper or a warehouse company, is not conferred ownership of copy). Nor does an act within the United States, consisting of authorizing or licensing distribution abroad, implicate exercise of an exclusive right under the Copyright Act. *See Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1094-1095 (9th Cir.) (mere act of authorizing distribution abroad does not implicate U.S. Copyright Act), *cert. denied*, 513 U.S. 1001 (1994).

construction . . .' serves to protect against unintended clashes between our laws and those of other nations which could result in international discord."

Applying this longstanding principle, U.S. courts and commentators consistently have taken as "undisputed" the "axiom that United States copyright law has no extraterritorial application" and that "a primary activity outside the boundaries of the United States" does "not constitut[e] an infringement cognizable under the Copyright Act." 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT (1997) § 12.04[A][3][b], at 12-88 (footnotes omitted); *see also Subafilms, Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1094 (9th Cir.) ("Because the copyright laws do not apply extraterritorially, each of the rights conferred under the five section 106 categories must be read as extending 'no farther than the [United States'] borders.'" (quoting 2 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 16.0, at 675 (1989))), *cert. denied*, 513 U.S. 1001 (1994). Indeed, the Ninth Circuit has characterized the principle against extraterritorial application of the U.S. Copyright Act as based on "eighty years of consistent jurisprudence." *Subafilms*, 24 F.3d at 1095.

This Court itself, for nearly a century, has recognized that acts occurring outside the territorial boundaries of the United States do not implicate rights conferred by the U.S. Copyright Act. In *United Dictionary Co. v. Merriam Co.*, 208 U.S. 260 (1908), the Court considered whether notice provisions of the U.S. Copyright Act applied to publication of a book in England, such that omission of notice of American copyright from the English publication would destroy U.S. copyright in the book. The Court noted that although "Congress could attach what conditions it saw fit to its grant" of copyright, "it is unlikely that it would make requirements of personal action beyond the sphere of its control." 208

U.S. at 264. The Court accordingly held that publication in England of a U.S. copyrighted work was not governed by the notice provisions of the U.S. Copyright Act. *See also Ferris v. Frohman*, 223 U.S. 424, 434 (1912) ("[t]he deprivation of the common-law right [under English law by virtue of the English performance], by force of the statute, was plainly limited by the territorial bounds within which the operation of the statute was confined" such that performance in England had no effect upon rights under U.S. copyright law).

Consistent with the "undisputed" axiom that the Copyright Act does not cover or extend its protections to acts occurring beyond the boundaries of the United States, it is well established that a distribution of copyrighted goods outside the United States does not constitute an exercise of the section 106(3) right under the U.S. Copyright Act. *See, e.g., De Bardossy v. Puski*, 763 F. Supp. 1239 (S.D.N.Y. 1991) (U.S. courts lack subject matter jurisdiction under the Copyright Act over distribution of U.S. work outside the United States). It is, rather, a distribution governed only under rights conferred by foreign copyright law.

The first sale doctrine of section 109, however, limits only U.S. distribution rights under section 106(3). It cannot limit or exhaust distribution rights exercised pursuant to foreign law. Because a copyright owner retains a subsisting section 106(3) right with respect to copies distributed abroad, the owner may, without limitation of the first sale defense, maintain a section 602(a) claim against unauthorized importation of those copies, and a section 106(3) claim against their subsequent U.S. sale after importation. *See Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1149-1151 (9th Cir.) (first sale doctrine applies only to copies distributed within United States), *cert. denied*, ___ U.S. ___, 117 S. Ct. 190 (1996); *Parfums Givenchy, Inc. v. Drug*

Emporium, Inc., 38 F.3d 477 (9th Cir. 1994) (same), *cert. denied*, 514 U.S. 1004 (1995).[8]

Thus even under petitioner's reading of the Copyright Act, pursuant to which an unauthorized importation could not be actionable if the section 106(3) distribution right had been exercised with respect to the copies at issue, Quality King's importation and subsequent sale of goods distributed by L'anza outside the United States is an infringement. To hold otherwise would be to disregard "eighty years of consistent jurisprudence," *Subafilms*, 24 F.3d at 1095, concerning the territorial scope of the exclusive rights conferred under the U.S. Copyright Act.[9]

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[8] This territoriality principle governing exhaustion of copyright is an underpinning of international copyright law. Prior to formation of the European Community, a copyright owner's national distribution right under the copyright laws of most European nations was not extinguished by a "first sale" in another country. Since formation of the European Community, the copyright laws of the European member states are being "harmonized" such that the distribution of a copy anywhere within the European Community, but not outside the Community, exhausts the exclusive distribution right. *See generally* Jan Corbet, *The Law Of The EEC And Intellectual Property*, 13 J.L. & COMMERCE 327, 333-336 (1994) (discussing territoriality limits to exhaustion under the first sale doctrine and emergence of the European Community).

[9] Petitioner and *amici curiae* Costco Companies, Inc. *et al.* recognize the territorial limits of the Copyright Act, but nevertheless make a bizarre distinction in attempting to limit the territoriality principle. They argue that if the particular copies are made under authority of an entity that owns the U.S. copyright as well as all foreign copyrights, rather than under the authority of "an unrelated assignee or licensee solely of foreign rights," sale or distribution of the particular copies is a "first sale" so as to extinguish the section 106(3) right under the U.S. Copyright Act, even if the copies were made and distributed abroad. *See* Brief of *Amici Curiae* Costco *et al.* In Support of Petitioner at 10-11; Pet. Br. at 27-28. This distinction is baseless. That the foreign copyright owner may be the same entity as the U.S. copyright owner does not mean that the reproduction, sale or distribution of particular

[Footnote continued on next page]

C. The First Sale Doctrine Does Not Grant An Affirmative Right To Owners Of Copies

Petitioner's principal argument is that a copyright owner may not bar unauthorized importation or subsequent sale of goods it has distributed, even if the distribution occurred outside the United States, because the owner's section 106(3) right with respect to those goods has been exercised and exhausted under the first sale doctrine. Alternatively, however, petitioner seems to suggest that, even if the copyright owner's section 106(3) right has not been exercised and thus subsists, section 109 provides an "unqualified" "safe harbor," Pet. Br. at 14, and "blanket authorization," *id.* at 15, for an owner of particular copies to dispose of those copies. *See also* Pet. Br. at 27 n.11. This reading of section 109(a) would turn on its head the language, structure, and purpose of the Copyright Act.

Under the Copyright Act, section 106 sets forth the affirmative grant of rights, and sections 107 through 120 establish limitations thereto. Section 106(3) grants to copyright owners the exclusive right to prevent unauthorized distribution of copies, subject to the limitations of sections 107 through 120. An unauthorized distribution of copies is thus presumptively prohibited by section 106(3), unless such a distribution falls specifically within the limitations of sections 107 through 120.

[Footnote continued from previous page]
copies outside the United States is an exercise of a right conferred by U.S. copyright law. Rather, even if the same entity owns the U.S. and foreign copyrights in particular copies, the right to manufacture or distribute those copies outside the United States can only be governed by foreign law (*i.e.*, as a result of the foreign copyright, rather than the U.S. copyright).

Contrary to petitioner's assertion, the Copyright Act grants affirmative rights to copyright owners, not to users of copyrighted material. Section 109(a) is not an affirmative grant of a right to owners of copies, but rather a limitation on the otherwise presumptive ability of the copyright owner to block disposition of copies that have been the subject of the copyright owner's "first sale" or distribution. The availability of section 109(a) as a defense to claims of unauthorized distribution of copies therefore depends upon whether or not the section 106(3) right has been exercised with respect to those copies.

This fundamental underpinning of the first sale doctrine is plain from the language of the statute. The caption of section 109(a) states that it sets forth a "limitation[] on exclusive rights" arising from the "[e]ffect of transfer of particular copy or phonorecord." Absent a transfer or distribution resulting from the exercise of the exclusive right, section 109(a) is not implicated.

That the first sale doctrine depends for application upon exercise of the distribution right by the copyright owner moreover finds expression in the legislative history of section 109(a), the legislative history of its predecessor under the 1909 Copyright Act, and the earliest articulations of the first sale doctrine by this Court and other courts.

In *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908), this Court enunciated the first sale doctrine as follows: "The purchaser of a book, *once sold by authority of the owner of the copyright*, may sell it again, although he could not publish a new edition of it." (Emphasis added.) *See also Henry Bill Publishing Co. v. Smythe*, 27 F. 914, 925 (S.D. Ohio 1886) ("if he sells a copy to another, *having, as owner of the copyright, authorized a transfer*, the purchaser takes the copy with the ordinary incident of alienation belonging to all property" (emphasis added)).

When Congress thus enacted section 41 of the 1909 Copyright Act, the statutory predecessor of section 109(a), it made clear that "Section 41 is not intended to change in any way existing law . . . . [I]t would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright *after said proprietor has made the first sale.*" H.R. Rep. No. 2222, 60th Cong., 2d Sess. 28-29 (1909) (emphasis added); S. Rep. No. 1108, 60th Cong., 2d Sess. (1909) (adopting House Report). Indeed, courts interpreting the 1909 Act's codification of the first sale doctrine recognized that the doctrine did not provide an absolute "safe harbor" to owners of copies. *See Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963) (rejecting the "absolutist contention that anyone in lawful possession of copyrighted goods may sell them without infringement" in favor of a rule that first sale doctrine allows an owner of a copy to vend that copy only if it has been the subject of a valid first sale by or on behalf of the copyright owner); *Independent News Co. v. Williams*, 293 F.2d 510, 517 (3d Cir. 1961) ("where the publisher has parted with the title to the copyrighted work" subsequent purchasers may vend that copy freely).

Likewise, in enacting section 109(a) of the 1976 Copyright Act, Congress stated that "Section 109(a) restates and confirms the principle that, *where the copyright owner has transferred ownership of a particular copy or phonorecord of a work*, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental or any other means." H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79 (1976) (emphasis added); S. Rep. No. 473, 94th Cong., 1st Sess. 71 (1975).

Petitioner's contention that section 109(a) grants to Quality King the affirmative right to sell copies, regardless whether or not those copies were subject to the copyright owner's initial distribution or "first sale" under section 106(3),

is thus contrary to the language and structure of the Copyright Act, legislative history of the provision, and seminal articulations of the first sale doctrine's underpinnings. Because section 109(a) does not provide an unqualified safe harbor for an owner of copies to dispose of those copies, the Court must look to whether or not the section 106(3) right has been exercised and exhausted with respect to such copies. Because the U.S. distribution right is not exercised by a copyright owner's distribution of copies abroad, the owner may bar unauthorized importation and subsequent U.S. sale of such copies.

CONCLUSION

For the foregoing reasons, the Court should reject petitioner's attempt to eviscerate the protections of section 602, to disregard at least "eighty years of consistent jurisprudence" concerning the territorial scope of the Copyright Act, and to rewrite limitations on exclusive rights as affirmative rights of copyright users. *Amici curiae* respectfully seek affirmance of the decision of the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

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September 22, 1997

Appendix

APPENDIX

§ 602. *Infringing importation of copies or phonorecords.* (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to --

> (1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;
>
> (2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or
>
> (3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes,

unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

(b) In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited. In a case where the copies or phonorecords were lawfully made, the United States Customs Service has no authority to prevent their importation unless the provisions of section 601 are applicable. In either case, the Secretary of the Treasury is authorized to prescribe, by regulation, a procedure under which any person claiming an interest in the copyright in a particular work may, upon payment of a specified fee, be entitled to notification by the Customs Service of the importation of articles that appear to be copies or phonorecords of the work.

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No. 96-1470

In The
SUPREME COURT OF THE UNITED STATES
October Term, 1997

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF OF *AMICI CURIAE* BEAUTY AND BARBER SUPPLY INSTITUTE INC. AND SEBASTIAN INTERNATIONAL, INC., IN SUPPORT OF RESPONDENT

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INTRODUCTION AND INTEREST OF AMICI CURIAE[1]

The Beauty and Barber Supply Institute Inc. ("BBSI") is a nation-wide trade association that represents the interests of the professional beauty products industry. BBSI's approximately 1,200 members participate in all segments of the professional beauty industry, with particular emphasis on the manufacture and distribution of hair care products (such as shampoos and conditioners), skin care products (such as moisturizers and exfoliators) and beauty salon equipment. *Amicus* Sebastian International, Inc., a member of BBSI, manufactures professional hair care products. The products sold by BBSI's members are primarily sold through professional beauty salons.

For more than 90 years, BBSI has helped its members further the goals and interests of this diverse industry by providing important industry support including industry training, promotion and public education. This industry is intensely competitive, and consumers benefit from having a wide variety and array of professional beauty products from which to choose.

Many of BBSI's distributor members sell hair and beauty care products pursuant to contractual arrangements with manufacturers. While the contractual arrangements vary, often the distributors are awarded exclusive geographic territories within which to sell a manufacturer's products to professional beauty salons. In return, the manufacturer provides educational, technical and advertising support to the

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[1] All parties' written consents to the filing of this brief are simultaneously being submitted to the Clerk of the Court. This brief was not authored in whole or in part by counsel for any party. No person or entity other than *Amicus Curiae* Beauty and Barber Supply Institute Inc. made any monetary contribution to the preparation and submission of this brief.

distributor. Other BBSI members sell products both to the professional salon market and also to the retail public, again by agreement with the manufacturer.

BBSI's members are harmed by "diversion", which is the sale of products outside authorized distribution channels, *e.g.*, to unauthorized customers and/or in unauthorized territories. Diverted product can take many routes, and many BBSI members are engaged in battling diversion on numerous fronts, including the unauthorized importations of "gray market"[2] products.

Diversion is harmful in a number of ways. Sellers of diverted goods obtain "free rides" on the investment of the manufacturers and distributors by benefiting from the substantial investment the manufacturers and distributors have made in the development and marketing of these professional beauty products, without having to make any financial or creative contribution. Additionally, it dilutes the exclusivity and aura of the products painstakingly cultivated by the manufacturers and distributors.

Diversion also disserves consumers and frustrates the manufacturer's intent that consumers receive expert consultation and advice when buying their beauty care products. When consumers buy these products from authorized sellers, they receive expert counseling on which products will work best for them. Consumers who buy diverted products are deprived of such educational benefits.

Further, consumers can be harmed from the tactics sometimes used to mask diversion. For instance, some

[2] "Gray market" products are products "intended to be sold outside the United States but which are imported into this country without the consent of the owner of the United States trademark or copyright associated with the good." *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1382 n.1 (C.D. Cal. 1993).

diverters remove batch or identity codes, or even care instructions, from the product, in an effort to avoid detection. The absence of that information can frustrate the effectiveness of product recalls, if any prove necessary, and can expose the customer to unwarranted harm. Although such practices are not directly at issue in this case, these are key reasons behind the anti-diversion stance adopted by many BBSI members.

Moreover, consumers who buy products intended only to be sold to and used by professionals also run the risk of harming themselves. Some beauty care products contain caustic chemicals that should be handled only by those with professional training and experience.

The *Amici* thus have a vital stake in the outcome of this case. L'Anza, the respondent here, is a manufacturer member of BBSI, and the predicament faced by L'Anza is not unfamiliar to BBSI's members. Numerous BBSI members regularly face diversion situations akin to that in this case, where the L'Anza product was sold by its manufacturer for international distribution, but apparently was diverted and imported into the United States without the authority of the manufacturer and copyright owner.

BBSI and Sebastian International, Inc. urge the Court to affirm the Ninth Circuit Court of Appeals' holding. By finding the unauthorized importation of L'Anza product to constitute copyright infringement, the appellate court's holding has the fair and practical effect of preventing an economic displacement of a nature that could seriously harm BBSI's members, distributors and manufacturers of professional beauty care products.

SUMMARY OF ARGUMENT

The decision below should be affirmed. A key purpose of the Copyright Act is to encourage creative endeavors by rewarding authors for their efforts. As the Ninth Circuit has recognized, unauthorized importation impedes that goal by depriving the copyright holder of the just rewards for his or her labors. The "first sale" doctrine should not be used to frustrate the purpose of the Copyright Act where, as in the case before the Court, the conditions of sale were premised on distribution outside the United States.

Under the plain language and purpose of Section 602(a) of the Copyright Act, the importation of a copyrighted work without the authorization of the copyright owner is and should be deemed an infringement of copyright. The first sale doctrine embodied in Section 109 of the Copyright Act should not bar the copyright owner's infringement claim based on his right to exclude unauthorized importation, where, as in the instant case, the copyright owner sold the work for distribution in the foreign market.

The decision below is consistent with the legislative history of the Copyright Act and with well-reasoned opinions of this and other courts. Moreover, the Ninth Circuit's construction not only furthers the underlying policy and purpose of the Copyright Act, but also promotes competition and creates market efficiencies. This Court accordingly should affirm the Ninth Circuit Court of Appeals' judgment.

ARGUMENT

THE RULING BELOW SHOULD BE AFFIRMED, AS THE NINTH CIRCUIT PROPERLY RECOGNIZED THAT THE FIRST SALE DOCTRINE DOES NOT BAR INFRINGEMENT BY IMPORTATION OF COPYRIGHTED WORKS SOLD FOR DISTRIBUTION ABROAD.

A. Copyright Protection is Designed to Further Creative Efforts Through Financial Reward.

The copyright law derives from the constitutional provision that:

> The Congress shall have Power . . . to promote the Progress of Science and Useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

U.S. Const., art. I, § 8, cl. 8. That provision has been repeatedly interpreted as reflecting the conviction that providing a secure economic incentive to individuals is the best way to stimulate development of "Science and Useful Arts" to the ultimate benefit of the general public. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

This Court has recognized that the ultimate goal of benefiting the public is most effectively achieved by providing the author with a "special reward." *Sony Corp.*, 464 U.S. at 429. Under the U.S. system and increasingly throughout the world, the nature of such a "special reward" is primarily economic. This Court held, in one of its seminal copyright decisions, that "[t]he economic philosophy behind

the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors." *Mazer v. Stein,* 347 U.S. 201, 219 (1954).

The consideration that the copyright owner's creative endeavors be awarded through fair compensation is recognized in the general grant of monopoly powers to copyright owners. Thus, the Copyright Act confers certain exclusive rights on the copyright owner, including the right to reproduce copies, to prepare derivative works, and to distribute copies to the public by sale, rental, lease or lending, 17 U.S.C. § 106, as well as the right to prevent unauthorized importation of the work. 17 U.S.C. § 602.

B. The Importation Right Under Section 602 Is a Separate and Distinct Right From the Exclusive Distribution Right In Section 106

Quality King argues that the first sale doctrine in Section 109(a) of the Copyright Act, 17 U.S.C. § 109(a), should limit the importation right secured to copyright owners under Section 602(a), 17. U.S.C. § 602(a). Pet'r Br. at 12-13. In doing so, Quality King relies on the reference to Section 106 in the text of Section 602(a). *Id.* As discussed below, such an interpretation is contrary to the text of Section 602(a) and the underlying policy and Congressional intent for enacting this distinct importation right.

Section 602 of the Copyright Act provides, in pertinent part:

> (a) importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a

> work that had been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under Section 106, actionable under Section 501.

Section 106(3) of the Copyright Act provides:

> Subject to sections 107 through 120, the owner of the copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> . . .
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . .

The importation right in Section 602 is a separate, distinct right from the distribution right in Section 106(3). This is evident from two clear facts: (1) Congress' decision not to include the importation right of Section 602 in section 106(3), and (2) Congress' independent and separate reference to the enforcement of the importation right of Section 602 in Section 501. As Section 602 provides a separate and distinct right from the distribution right under Section 106(3), and the first sale doctrine under Section 109(a) applies only to section 106(3), Section 109(a) cannot reasonably be construed to limit a copyright owner's ability to prohibit the unauthorized importation of copies of his work under Section 602(a).

(1) Congress Created the Importation Right Under Section 602 as a Separate and Distinct "Special Reward" for Authors and Creators

The fact that Congress did not include the importation right in Section 106(3) is compelling evidence of the fact that this right is separate and distinct from those provided under Section 106. Indeed, Section 602 was created to specifically overcome the inability of the rights granted under Section 106 to apply to acts that occur outside the United States. *See* Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., Copyright Law Revision (Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 212 (Comm. Print 1963)); *see also* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785.

Because Section 106(3) does not expressly apply to acts outside of the United States, a copyright owner has no enforceable distribution rights under Section 106(3) with respect to actions taken outside the borders of the United States. *See Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983) (stating "[t]he protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states" that it does), *aff'd without opinion,* 738 F.2d 421 (3d Cir. 1984). It is an established legal priciple that absent specific congressional intent, domestic laws are presumed not to apply outside the United States. *See EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) (stating that legislation applies only within the boundaries of the United States unless Congress has manifested a contrary intent) (quoting *Foley Bros., Inc. v. Filardo,* 336 U.S. 281, 285 (1949)).

Section 602, on the other hand, specifically addresses activities outside the United States, by prohibiting importation of copyrighted works "that have been acquired *outside the United States*." 17 U.S.C. § 602(a) (emphasis added). As such, Section 602(a) grants to copyright owners a separate and valuable right that is distinct from the exclusive and strictly domestic rights granted under Section 106.

Allowing sales of copyrighted works abroad to extinguish the distribution right gives the distribution right an extraterritorial effect. *Columbia Broadcasting Systems,* 569 F. Supp. at 49. Such construction is contrary to the established principle against extraterritorial applicability of the Copyright Act absent congressional intent. *Subafilms Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095 (9th Cir. 1994); *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 662 (2d Cir. 1955).

(2) The Language of Section 501 Provides Further Compelling Evidence that the Importation Right in Section 602 is a Separate and Distinct Right from the Distribution Right Provided in Section 106(3)

Section 501 gives copyright owners the right to sue for infringement of their exclusive rights provided under either Section 106 or Section 602. 17 U.S.C. § 501. Section 501 provides, in pertinent part,

> (a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . or who imports copies or phonorecords into the United States in violation of

> section 602, is an infringer of the copyright or the right of the author, as the case may be.

17 U.S.C. § 501(a). This separate reference to Section 602 provides further compelling evidence that the importation right is separate and distinct from the distribution right in 106(3). Congress' decision to have a separate reference to Section 602 manifests its intent to provide for a distinct right against unauthorized importation.

Additionally, the specific provision in Section 602 that unauthorized importations in violation of that section are actionable under Section 501 is further evidence that Congress intended to create an importation right separate from the distribution right in Section 106(3).

C. The First Sale Doctrine Applies Only If The Copyright Owner has Received "Full Value"

Section 109 of the Copyright Act, which codifies the "first sale" doctrine, provides:

> (a) Notwithstanding the provisions of Section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Consistent with the overall aim of the Copyright Act to encourage creativity through financial reward, courts faced with the issue of whether a "first sale" has occurred so as to

exempt further disposition from the distribution right of Section 106(3), have adopted a functional analysis. As adopted by the Ninth Circuit below, and as applied in other copyright cases, courts using the functional analysis have held "that a first sale of copies or phonorecords has occurred if the disposition in question has enabled the copyright owner to realize their value." *Parfums Givenchy v. C & C Beauty Sales,* 832 F. Supp. 1378, 1389 (C.D. Cal. 1993), *citing* 1 Paul Goldstein, Copyright § 5.6.1 at 598 & n.14. As the court recognized in *C&C Beauty Sales,*

> This "full value" -- the price at which the copyright owner is willing to sell copies of his work -- depends on market conditions and, in today's global economy, varies from country to country.

C & C Beauty Sales, 832 F. Supp. at 1390. As an example, the court cited a hypothetical in which a copyright owner might be willing to sell phonorecords for $7 each in Australia, but was able to demand $10 for each record in the United States. *Id.* at 1390-91. As the court queried:

> If the phonorecords originally sold for $7 in Australia are allowed to enter the United States, where they may then be sold again for, say, $8, the United States copyright owner is forced to compete with that price, and thus is prevented from receiving the $10 to which he is entitled for each of the phonorecords originally released into the United States market.

Id. The court concluded that the first sale doctrine could not properly apply to prevent infringement actions under Section 602(a) because all relevant sections of the Copyright Act

> rest on the principle that the copyright owner is entitled to receive the full value of each copy or phonorecord upon its disposition. Applying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate this principle and defeat Congress' intent in enacting Section 602 (a), to expand importation protection for copyright owners so as to avoid circumvention of the distribution right.

Id. at 1391 (emphasis added).

The district court's decision in *C & C Beauty Sales* was approved by the Ninth Circuit in *Parfums Givenchy, Inc. v. Drug Emporium,* 38 F. 3d 477 (9th Cir. 1994), *cert. denied,* 514 U.S. 1004 (1995). The Ninth Circuit there described Section 602 as "ensur[ing] that a U.S. copyright owner will gain the full value of each copy sold in the United States, by preventing the unauthorized importation of copies sold abroad from being used as a means of circumventing the copyright owner's distribution rights in the United States." 38 F. 3d at 481 (citing *C & C Beauty Sales,* 832 F. Supp. at 1390-91).

If the copyright owner attempts to penetrate a foreign market by offering his work at a lower price, he has indeed

received the full value of the work if the product is actually sold within the foreign market. A copyright owner is unfairly deprived of his rightful recompense if the articles lawfully marketed in the United States must compete with articles distributed in foreign markets and thereafter imported. Section 602(a)'s prohibition protects the copyright owner from such injustice, a result consistent not only with the intended scope of the Copyright Act, but also consistent with sound competition principles.[3]

(1) Authors and Creators Rely on the "Special Reward" provided by Congress in Enacting Section 602 to Realize the Full Value of their Copyrighted Works

As noted above, Section 602 was adopted because the importation of copies from outside the United States was undermining the exclusive rights guaranteed U.S. authors and creators in Section 106(3). As a result, rights holders could not control the distribution of copies distributed through authorized channels within the United States. In effect, copyright owners were deprived of the "full value" to which they were entitled for the copies sold within the United States, even though the imported copies may have been the subject of a valid first sale.

(2) Members of *Amicus* BBSI Rely Heavily on the Importation Right to Ensure Adequate Realization of the "full value" of their Products

Members of *Amicus* BBSI research, formulate and distribute high quality hair care products which are sold exclusively through professional beauty and barber salons ("authorized distribution channels"). BBSI members

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[3] *See* discussion in Sections D & E, *infra.*

typically invest heavily in advertising, training and education in the United States market, to create and maintain a reputation for their high quality products available only through the authorized channels of distribution.

Many members distribute their products in the United States through authorized distributorships formed along territorial lines. Foreign markets are traditionally handled separately, and any transshipment across foreign borders, or from foreign markets into the United States, is typically not authorized. As L'Anza did in this case, some manufacturers of professional beauty products discount foreign sales by as much as 40% below the prices that may be charged to their U.S. distributors.

Such heavy discounts reflect the fact that the manufacturer's training, promotion and consumer education activities focus on the United States market. Foreign distributors, on the other hand, generally must promote the products and educate consumers on their own, without the benefit of the manufacturer's U.S. advertising and promotional activities. Consequently, the prices to these foreign distributors do not reflect the manufacturer's training, education and advertising activities in the authorized channels of distribution in the United States.

As a result, the manufacturer only makes these sales to foreign distributors on the reliance that they would never be imported into the United States. This is because if a foreign distributor, or someone who has purchased such products from a foreign distributor, imports the products into the United States, the manufacturer is forced to compete with its own reimported products, and is then deprived of its right to obtain the "full value" of its copyright with regard to sales in the United States. This is in fact what happened in the present case. The Ninth Circuit's opinion should be affirmed

in order to prevent such an unfair consequence and to give full meaning to the purpose and policy of the Copyright Act.

D. Quality King's and *Amicus* AFTA's Claims of Unfairness or Restraint of Trade are Without Merit

Any concern over restraints of trade underlying the application of the first sale doctrine, as codified in Section 109, to the sale of copyrighted works abroad is wholly unwarranted. *See* Pet'r Br. at 20-21. The original concerns which fostered adoption of the first sale doctrine involved the perception that a copyright owner's ability to maintain resale prices might be anticompetitive. H.R. Rep. No. 1476, 94th Cong., 2d. Sess. 64 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693 ("[t]hus, for example, the outright sale of an authorized copy of a book frees it from any copyright control over its resale price or other conditions of its future disposition").

Today, economists and legal scholars generally recognize that vertical restraints, such as exclusive distributorships (and even resale price maintenance) are not anticompetitive and in fact lead to increased sales. *See Continental T.V., Inc., v. GTE Sylvania Inc.*, 433 U.S. 36 (1977). Elimination of unauthorized parallel imported goods, or "gray market" products, is procompetitive because it protects a U.S. copyright owner from competing against copies of its own work in a manner that disrupts the rational marketing strategy of the copyright owner. *See* Christopher A. Mohr, *Gray Market Goods and Copyright Law: An End Run Around Kmart v. Cartier,* 45 Cath. U. L. Rev. 561, 606-07 (1996).

If the first sale doctrine were held to apply to sales of copyrighted works abroad, then economic principles would compel that the copyright owner simply limit, or eliminate,

distribution of its work abroad -- which harms competition and results in irrational behavior. *See* Lexecon Inc., *The Economics of Gray Market Imports* pp. 18 & 26-30 (1985) (stating intrabrand competition injures distribution networks). Therefore, the concerns over resale price maintenance that were behind the adoption of Section 109 do not apply to enforcing a copyright owner's right to halt the unauthorized importation of copyrighted works.

E. This Court has Repeatedly Recognized That Vertical Territorial Restraints That Have the Same Effect as Restricting Unauthorized Imports Are Procompetitive

The ability to prevent unauthorized importation of copyrighted works, a protection granted by the importation right under Section 602(a), is in fact procompetitive because it creates efficiencies and other public benefits that ensure vigorous interbrand competition.

In reviewing various challenges made under the antitrust laws to restrictive distributorship arrangements in the United States, this Court has found that such restrictions generally stimulate interbrand competition, and thus are "reasonable" restraints. *See Continental T.V., Inc., v. GTE Sylvania Inc.*, 433 U.S. 36, 51-54 (1977); *see also* Robert H. Bork, *The Antitrust Paradox* at 288-91 (1978) (arguing for the legitimacy of all vertical restraints, including resale price restrictions).

Territorial restrictions limit a distributor's freedom to sell by prohibiting it from selling outside an assigned territory, thereby eliminating "intrabrand" competition.[4] In

[4] Intrabrand competition is the competition between the distributors -- wholesale or retail -- of the product of a particular manufacturer. In contrast, interbrand competition is the competition among various manufacturers of the same kind of product and "is the primary concern of antitrust law." *Continental T.V., Inc., v. GTE Sylvania Inc.*, 433 U.S. 36, 52 n.19 (1977).

Continental T.V., this Court recognized that such territorial restrictions "promote interbrand competition by allowing the manufacturer to achieve certain efficiencies in the distribution of his products." 433 U.S. at 54.[5] In addition, geographical restrictions operate as incentives for distributors to invest capital and effort in cultivating an exclusive market, to increase their advertising and marketing efforts, and to provide better consumer education, without the fear of free-riders. That in turn increases output, thus promoting competition among brands. *Id.* at 55.

That effect is readily apparent in the professional beauty products market, where many high quality product manufacturers vigorously compete for the consumer's dollars. For this additional reason, the Ninth Circuit's decision should be affirmed.

F. Sections 109 and 602 Should be Harmonized to Encourage Fair Reward to the Copyright Owner

The interest to be protected by the Copyright Act -- encouraging creativity by means of adequate financial reward, to the ultimate benefit of the public, is best served by reading Sections 109 and 602(a) of the Copyright Act in tandem, such that the first sale doctrine can be invoked only

[5] *See also Crane & Shovel Sales Corp. v. Bucyrus Erie Co.*, 854 F.2d 802, 810 (6th Cir. 1988) (creating exclusive territory may enhance manufacturer's ability to compete); *Krehl v. Baskin-Robbins Ice Cream Co.*, 664 F.2d 1348, 1356 (9th Cir. 1982) (purpose of territorial restrictions to enter new markets and promote wider availability of products found reasonable); *Muenster Butane, Inc. v. Stewart Co.*, 651 F.2d 292, 297-98 (5th Cir. 1981) (reversing jury verdict for plaintiff where restriction sought to increase product advertising, and interbrand competition was increased); *Clairol, Inc. v. Boston Discount Ctr.*, 608 F.2d 1114, 1125 (6th Cir. 1979) (upholding customer restrictions designed to promote consumer safety and protect product goodwill).

if the copyright owner has received "full value" for the work. The copyright owner thus should have the right to challenge, as infringement, the unauthorized importation of copyrighted goods.

CONCLUSION

For the foregoing reasons, and to protect the underlying purpose and intent of the Copyright Act -- encouraging creativity by means of adequate financial reward -- *Amici* respectfully urge that this Court affirm the United States Court of Appeals for the Ninth Circuit's ruling.

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IN THE
Supreme Court of the United States
OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,

Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

AMICUS CURIAE BRIEF OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF RESPONDENT

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INTEREST OF THE *AMICUS CURIAE*

The American Intellectual Property Law Association ("AIPLA") is a national association of more than 10,000 members whose interests lie in the area of patent, copyright, trademark, trade secret, and other areas of intellectual property law. The AIPLA's members include attorneys in private practice and attorneys employed by corporations, universities, and government, and represent both owners and users of intellectual property. Unlike many other areas of practice in which separate and distinct plaintiff's and defendant's bars exist, most, if not all, intellectual property attorneys represent both intellectual property owners and alleged infringers.

The AIPLA has no stake in either the parties to this litigation or the result of this case, other than its interest in seeing correct and consistent interpretation of the law affecting intellectual property[1]. The AIPLA is deeply concerned about the possibility of broadening the interpretation of the first sale doctrine in a manner that would exhaust the parallel importation rights granted to copyright owners under section 602(a) of the Copyright Act. The interests of those in the business community would be directly and adversely affected if importers and other distributors were now found to be immunized from copyright liability under the first sale doctrine for their parallel importation of copyrighted works in violation of section 602(a) of the Copyright Act. Therefore, for the reasons set forth in this brief, the AIPLA respectfully requests that this Court uphold the prior judgment in favor of L'anza.

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[1] Pursuant to Rule 37.6, none of the parties or their counsel have contributed either substantively or monetarily to the preparation of this brief. Specifically, only the amicus, its members and its counsel have made a monetary contribution to the preparation or submission of this brief.

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SUMMARY OF THE ARGUMENT

The Ninth Circuit correctly held that the first sale privilege in section 109(a) of the Copyright Act does not immunize from liability those who violate section 602(a) by importing lawfully made copies into the United States without the authority of the copyright owner. Section 602(a) of the Copyright Act grants copyright owners the right to prevent the unauthorized importation of lawfully made copies and phonorecords of their works into the United States and is a distinct and separate right from the distribution right in section 106(3) of the Copyright Act.

Section 106(3) is a domestic distribution right that does not apply to acts occurring outside the United States. The plain language of section 602(a) makes clear that, unlike the distribution right in section 106(3), the importation right in section 602(a) applies to acts that occur outside the United States (provided the acts result in an importation into the United States). Section 501(a) also establishes that section 106(3) and section 602(a) are distinct rights because it explicitly makes the violation of either section separately actionable.

Section 109(a) should apply only when a copyrighted work is made *and acquired* in the United States. To apply section 109(a) properly, it must be read in light of the requirement in section 109(d) that qualifies the scope of section 109(a) so as to apply only to those who acquire ownership of the copies or phonorecords in the United States. This interpretation ensures the continued vitality of the purpose and effect of the first sale doctrine, as codified in section 109(a), while simultaneously ensuring the continued grant of a right to prevent parallel importation to copyright owners under section 602(a).

The alternative interpretation of section 109(a) supported by Quality King, mandating that section 109(a) apply whenever a copyrighted work is made in the United States, irrespective of where the copyrighted work is sold, would exhaust the parallel importation right in section 602(a) whenever a copyrighted work is made in the United States and sold outside the United States. This interpretation would render section 602(a) virtually meaningless and would make the exceptions in sections 602(a)(2) and (3) and section 602(b) superfluous. This Court has held that statutes should be read in a manner that gives effect and harmonizes discordant provisions and that does not result in superfluous provisions within a statute. Only L'anza's interpretation gives effect to sections 109(a) and 602(a) and does not result in superfluous provisions in the Copyright Act.

Quality King also cites to several trademark cases that it contends establish a precedent that prevents L'anza from prevailing. The analysis and holdings established by these cases are antithetical to over 200 years of copyright law. This Court has long recognized the differences between copyright law and trademark law and has consistently refused to import trademark law standards into the copyright law. Thus, in keeping with the precedents established by this Court, the trademark cases cited by Quality King should have no bearing on the outcome of this case.

Finally, Quality King's claims that holding for L'anza would permit L'anza to engage in an anticompetitive practice or would allow businesses to circumvent the trademark laws related to parallel importation by asserting copyright claims to prevent parallel importation are not relevant to a determination of the relationship between sections 109(a) and 602(a). When a copyright owner, or any other intellectual property owner, is

accused of anticompetitive activity, such an accusation is properly addressed by the antitrust laws, not by altering the Copyright Act.

ARGUMENT

I.
THE PLAIN LANGUAGE OF THE COPYRIGHT ACT DEMONSTRATES THAT SECTION 602(a) PROHIBITS THE UNAUTHORIZED IMPORTATION OF LAWFULLY MADE COPIES

The Copyright Act grants copyright owners certain exclusive rights that, together, comprise the bundle of rights known as copyright. Among the rights granted to copyright owners under the Copyright Act is the distribution right. Section 106 of the Copyright Act provides:

> Subject to sections 107 through 120, the owner of the copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> . . .
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . .

There are several exceptions to the exclusive rights in section 106, which are codified in sections 107-121 of the Copyright Act. One of these exceptions is the so-called "first sale doctrine" of section 109(a). Section 109(a) provides:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a) (1997). The first sale doctrine allows a person who lawfully owns a particular copy or phonorecord to dispose of possession of that copy or phonorecord even though the copyright owner would otherwise be able to prevent such a disposition by enforcing his section 106(3) distribution rights.

The first sale doctrine is not an absolute privilege to distribute copies and phonorecords. It is limited in several ways. For example, the phrase "made under this title" requires that the first sale privilege attaches only to copies and phonorecords that are "made in the United States." *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992); *Columbia Broadcasting Sys., Inc. v. Scorpio Music Distrib., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983). *Compare* Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* 207 (Comm. Print. 1964) (commenting on similar language in section 602(b)) (The phrase "'if this title had been applicable' is intended to effect a geographic restriction in the Copyright Act."). Another limitation on the first sale privilege is that it applies only to the distribution right. *See Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 281 (4th Cir. 1989) (stating that "courts and commentators likewise agree that the first sale doctrine has no application to the rights of the owner of a copyright guaranteed by § 106, except the right of distribution."); *Columbia v. Redd Horne*, 749 F.2d 154 (3d Cir. 1984). Section 109(a) does not immunize from copyright infringement liability anyone who

infringes any of the other rights afforded to copyright owners in the Copyright Act.

In addition to the rights under section 106, the Copyright Act, in section 602, also affords copyright owners the right to control the importation of their works into the United States. Section 602(a) provides that:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501 . . . .

17 U.S.C. § 602(a) (1997). The language of section 602(a) refers only to the act of importing copies and phonorecords of the copyrighted work and not to the act of making copies or phonorecords of the copyrighted work. Therefore, section 602(a) provides copyright owners not only with the right to prevent the importation into the United States of copies and phonorecords that were unlawfully made (commonly referred to as "piratical works") but also those that were lawfully made but unlawfully imported (commonly referred to as "parallel imports" or "grey market goods").

Despite the plain language of 602(a), the express limitations on section 602 enacted by Congress in sections 602(a)(1), (2), and (3) and in 602(b), and the legislative history of those sections, Quality King argues that the first sale privilege in section 109(a) should limit the applicability of section 602(a). To make its argument, Quality King relies on language in section 602(a) that refers to section 106. As explained more fully in the following sections of this brief, the

construction of section 602(a) suggested by Quality King is contrary to the plain language of section 602(a). It is also contrary to the overall structure of the Copyright Act, rules of statutory construction, and the plain language of other provisions of the Copyright Act.

II.
SECTION 602 GRANTS TO COPYRIGHT OWNERS AN IMPORTATION RIGHT THAT IS A SEPARATE AND DISTINCT RIGHT FROM THE DISTRIBUTION RIGHT IN SECTION 106(3)

Congress's decision not to include section 602 in section 106(3) and to refer to section 602 separately in section 501 is compelling evidence that the importation right in section 602 is a right that is separate and distinct from the distribution right of section 106(3). Therefore, as section 109(a) applies only to section 106(3) and not to section 602, section 109(a) does not affect a copyright owner's ability to prevent the importation of copies of his work under section 602.

A. Section 106(3) Is a Domestic Distribution Right that Has No Effect on Acts Outside the United States

The rights granted to copyright owners have no extraterritorial effect, unless stated otherwise in the Copyright Act. *Scorpio*, 569 F. Supp. at 49 ("The protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states."). Because there is no express statement that the rights in section 106 have extraterritorial effect, section 106(3) (as well as the other rights in section 106) does not apply to acts that take place outside the United States. Section 602, however, does apply expressly to

acts that take place outside the United States (if those acts result in an importation into the United States). For example, section 602(b) prohibits importation of piratical copies and phonorecords when "the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable" (*i.e.*, importation prohibited when the unauthorized making of the copies of phonorecords occurs outside the United States). 17 U.S.C. § 602(b) (1997). Similarly, section 602(a) prohibits importation of copies and phonorecords "that have been acquired outside the United States." 17 U.S.C. § 602(a) (1997). In both cases, acts occurring outside the United States may form the basis of an infringement if they result in an importation into the United States. Accordingly, the rights granted in section 602 are distinct from the rights granted in section 106 because the 106 rights are enforceable only against domestic acts while the section 602 rights are enforceable against extraterritorial acts that result in an importation into the United States.

B. The Plain Language of Section 501 Further Establishes that the Importation Right in Section 602(a) Is a Separate and Distinct Right from the Section 106(3) Domestic Distribution Right

Section 501 further distinguishes between the distribution right in section 106(3) and the importation right in section 602(a). Section 501(a) explicitly provides copyright owners with a cause of action for violations of either section 106 *or* section 602. Specifically, section 501(a) provides:

> Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or the right of the author, as the case may be.

If Congress did not intend for section 602 to be distinct from the distribution right in section 106 there would be no need for the statute to reference section 602 separately. Congress's intent is further supported by the fact that section 602(a) itself specifies that importations that violate section 602 are actionable under section 501.

If Congress intended section 602 to be encompassed by section 106(3), then Congress could have either not referred to section 602 in section 501 or could have formulated section 501 to read "Anyone who violates any of the exclusive rights of the copyright owners as provided by sections 106 through 118, *including importations in violation of section 602* . . . is an infringer . . . ." Since Congress used the term "or" to separate the two rights and not the term "including," the logical conclusion is that Congress intended the section 602 importation right to be distinct from the distribution right in section 106(3) and separately actionable under section 501. As section 602 is a separate and distinct right from section 106(3) and section 109(a) only exhausts the distribution right in section 106(3), this Court should hold that section 109(a) does not exhaust the importation right in section 602(a).

III.
SECTION 109(d) SUGGESTS THAT SECTION 109(a) APPLIES ONLY WHEN THE COPIES AND PHONORECORDS ARE MADE AND ACQUIRED IN THE UNITED STATES

To determine the appropriate scope of applicability of section 109(a) and, in particular the relationship between sections 109(a) and 602(a), section 109(a) should be read in light of the qualifications placed on it by section 109(d). Section 109(d) suggests that the first sale privilege in section 109(a) should attach only to those copyrighted works that are made *and acquired* in the United States.

Section 109(a) allows a person who owns a lawfully made copy or phonorecord embodying a copyrighted work to dispose of ownership of that particular copy or phonorecord in any manner without violating the copyright owner's distribution right in section 106(3). In addition to the section 109(a) requirement that the copies or phonorecords be lawfully made in the United States, section 109(d) imposes a further qualification on the availability of the first sale privilege. Section 109(d) provides that the privileges granted by section 109(a) do not extend to any person unless that person *acquires ownership* of the copy or phonorecord.[2] 17 U.S.C. § 109(d) (emphasis added).

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[2] Section 109(d) also provides that the section 109(a) privileges apply when authorized by the copyright owner. As the copyright owner did not authorize the distribution in this case, however, this phase has no effect on the outcome of this case. Section 109(d) provides: "The privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it." 17 U.S.C. § 109(d) (1997).

The acquisition of ownership requirement in section 109(d) is satisfied whenever a person acquires ownership of a copy or phonorecord embodying a copyrighted work by means of a sale or other transfer of ownership. Accordingly, any person qualifying for the first sale privilege in section 109(a) must first *acquire* the copy or phonorecord by virtue of a sale or other transfer of ownership. As the Copyright Act has no extraterritorial effect, and therefore does not apply to acts outside U.S. territories, AIPLA respectfully submits that such acquisition must occur in the United States.[3]

There is support for this position in the legislative history. In discussing the burden of proof under section 109, the House Report states that a "court decision holding that plaintiff . . . had the burden of establishing that the allegedly infringing copies in the defendant's possession were not lawfully made *or acquired under section 27 of the present law*" (the Copyright Act of 1909) was improper because the "burden of proving whether a particular copy was lawfully made *or acquired* should rest on the defendant." *Id.* (emphases added). *See also* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 80 (1976) ("[Section 109(d)] qualifies the privileges specified in subsections (a) and (b) by making clear that they do not apply

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[3] *See McLoughlin v. Raphael Tuck Co.*, 191 U.S. 267 (1903); *Filmvideo Releasing Corp. v. Hastings*, 668 F.2d 91 (2d Cir. 1981); *Scorpio*, 569 F. Supp. at 49. *See also* 4 Melville B. & David Nimmer, *Nimmer on Copyright* § 17.02 (1997) ("[A]cts of infringement which occur outside the jurisdiction of the United States are not actionable under the United States Copyright Act . . . [unless] part of the 'act' of infringement occurs within the United States."). *Compare* section 602(a), which requires that the copies and phonorecords be "acquired outside the United States" *with* section 109(d), which refers only to "acquiring ownership." If section 109(d) were to have extraterritorial effect as section 602(a), Congress could have explicitly permitted acquisitions outside the United States to qualify under the section 109(d) acquisition of ownership requirement.

to someone who merely possesses a copy without having acquired ownership of it."). These statements suggest that Congress intended for section 109(a) to apply only when the particular copies were made and acquired under this title.

Several of the cases that address the relationship between sections 109(a) and 602(a) have held that section 109(a) applies only when the imported works are made and acquired in the United States. In *Scorpio*, for example, the court held that the importer infringed the copyright owner's parallel importation rights under section 602(a) because "section [109(a)] grants first sale protection to the third party buyer of copies which have been legally manufactured and sold within the United States and not to purchasers of imports [that are sold outside the United States]." 569 F. Supp. at 49. Others courts have likewise held that section 109(a) applies only when the imported works are made and sold in the United States. *See, e.g., Parfums Givenchy v. Drug Emporium*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 514 U.S. 1004 (1995); *BMG Music*, 952 F.2d at 319; *Cosmair Inc. v. Dynamite Enter. Inc.*, 226 U.S.P.Q. 344 (S.D. Fla. 1985). In fact, the only court to hold otherwise failed to consider the domestic acquisition of ownership requirement imposed by section 109(d). *See Sebastian Int'l Inc. v. Consumer Contracts Ltd.*, 847 F.2d 1093 (3d Cir. 1988). In light of these cases and the acquisition of ownership requirement in section 109(d), the scope of section 109(a) should be interpreted as applying to works that are lawfully made and acquired in the United States.

IV.
QUALITY KING'S INTERPRETATION OF SECTION 109(a) IS CONTRARY TO THE PLAIN LANGUAGE OF SECTION 602(a) AND THE LEGISLATIVE HISTORY OF SECTION 602(a) BECAUSE IT WOULD RENDER SECTION 602(a) VIRTUALLY MEANINGLESS

Quality King's interpretation of section 109(a) is contrary to the plain language of section 602(a) because, under such an interpretation, section 109(a) would bar copyright owners from enforcing their parallel importation rights under section 602(a) in virtually every instance. Section 602(a) thereby would be rendered virtually meaningless. Quality King's interpretation is also contrary to the legislative history, which demonstrates that Congress intended to grant copyright owners the right to prevent parallel importation.

A. Quality King's Construction of Section 109(a) Would Render the Plain Language of Section 602(a) Virtually Meaningless

Under Quality King's interpretation of section 109(a), the first sale privilege would attach, not just to works sold in the United States, but also to works sold outside the United States. The court in *Scorpio* recognized the fallacy in such statutory construction when it stated that "[c]onstruing § 109(a) as superseding the prohibition on importation set forth in the more recently enacted § 602 would render § 602 meaningless." 569 F. Supp. at 49.

Not only would Quality King's interpretation of section 109(a) render section 602(a) virtually meaningless but it also would make it extremely easy for a party to destroy the importation right. The court in *Scorpio* recognized the dangers

that would result from applying section 109(a) too broadly when it stated that "[t]hird party purchasers who import phonorecords could circumvent the statute, in every instance, by simply buying the records indirectly." For example, an American copyright owner might choose to grant a foreign distributor the right to distribute copies of his work in certain foreign countries. Once the copyright owner sells the copies to the foreign distributor, the copyright owner would be stripped of his parallel importation right, as the foreign distributor or a third party who obtains the copies from the foreign distributor could import the copies into the United States by invoking the first sale privilege.[4]

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[4] The only means, other than section 602(a), that copyright owners have to protect against parallel importation of their works is the enforcement of contractual limitations. The use of contractual limitations for controlling parallel importations into the United States, however, has proven not to be practicable. Contract actions have generally been found to be unduly expensive and ineffective. *See* Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., *Copyright Law Revision Part 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 212-14, 232, 327 (Comm. Print 1963); 2 William F. Patry, *Copyright Law and Practice* 867 (1994). Moreover, many times enforcement of contractual terms is impossible to obtain because there is no privity between the importer and the copyright owner or because the contract must be enforced in the foreign country where the sale or unauthorized distribution took place. *See* Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 126 (Comm. Print 1961); Patry, *supra*. Consequently, the only viable solution to prevent parallel importation is enforcement of a copyright owner's parallel importation rights under section 602(a). If section 109(a) is interpreted so broadly, so as to prevent an action under section 602(a), copyright owners will be left with no practical remedy for preventing parallel importation of their works.

Quality King claims that its interpretation of section 109(a) would not render section 602(a) meaningless because section 602(a) provides copyright owners with remedies against importers of piratical copies and against licensees and bailees that otherwise would not be available. (Pet.'s Br. at 24-29.) As to its arguments concerning piratical copies, these claims are incorrect. If section 602(a) ceased to exist, copyright owners would still be able to prevent the importation of piratical copies of their works under section 602(b). Section 602(b) provides that "[i]n a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited." 17 U.S.C. § 602(b) (1997). Hence, Quality King's claim that section 602(a) provides the copyright owner with remedies against piratical imports "*that otherwise would not be available*" is patently incorrect as such remedies are available under section 602(b). (Pet.'s Br. at 24.) (emphasis added).

Quality King's claim that section 602(a) would still be effective against licensees and bailees is likewise flawed. There is no hint anywhere in the language of the Copyright Act or the legislative history that Congress intended to limit the application of section 602(a) to licensees and bailees. By attempting to apply section 109(a) to section 602(a), Quality King is distorting the Copyright Act to fit its interpretation of section 109(a). Further, as licensees and bailees are not owners of the copies or phonorecords in their possession, and thus, under section 109(d) are never in a position to avail themselves of the first sale privilege, they are irrelevant to the Court's determination of the relationship between section 109(a) and 602(a).

L'anza's interpretation of the relationship between sections 109(a) and 602(a) gives effect to both provisions. This Court has held that it "must read the statutes to give effect to

each if we can do so while preserving their sense and purpose." *Watt v. Alaska*, 451 U.S. 259, 266 (1981). This Court has also held that "courts should interpret a statute with an eye toward the surrounding landscape and an ear for harmonizing potentially discordant provisions," *United States v. Bass*, 404 U.S. 336, 344 (1971), and "[w]hen two statutes are capable of co-existence . . . it is the duty of the courts, absent a clearly expressed intention by Congress, to regard each as effective." *Vimar Seguros Y Reaseguros v. M/V Sky Reefer*, 515 U.S. 528, 533 (1995) (quoting *Morton v. Mancari*, 417 U.S. 535, 551 (1974)). L'anza's interpretation of the relationship between sections 109(a) and 602(a) harmonizes both provisions by giving effect to both provisions. To the contrary, Quality King's interpretation of section 109(a) gives effect only to section 109(a) and reconciles it with section 602(a) only through extreme contortions.

Further, it is a well-established rule of statutory construction that a specific statute or provision is not controlled or nullified by a general one. *Crawford Fitting Co. v. J. T. Gibbons, Inc.*, 482 U.S. 437, 444 (1987) (citing *Radzanower v. Touche Ross & Co.*, 426 U.S. 148 (1976); *Morton v. Mancari*, 417 U.S. 535 (1974)). Section 109(a) is a general provision that applies whenever anyone who owns a copyrighted work desires to transfer that work. Section 602(a), however, applies only to a specific type of transfer -- an importation. Thus, to the extent that section 602(a) and section 109(a) appear to be inconsistent, section 602(a) prevails. Therefore, the Court should hold in favor of L'anza's interpretation.

B. Quality King's Interpretation of Section 109(a) Is Contrary to the Legislative History, Which Demonstrates that Congress Intended Section 602(a) to Provide Copyright Owners with the Right to Prevent Parallel Importation of Their Works

Quality King's interpretation is contrary to the legislative history. The scope of the importation right was the subject of numerous discussions and comments in the drafting process leading to enactment of the 1976 Copyright Act. In the Copyright Office's first report on the Copyright Act revisions, the Register suggested that copyright owners should not be granted a right to prevent parallel importation. This suggestion was based on the belief that extending copyright protection to parallel importation would require the United States Customs Service to enforce private contracts. Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision Part 1: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 126 (Comm. Print 1961).

This Copyright Office suggestion was met with opposition from the copyright industry. After careful consideration of the comments of the copyright industries and while maintaining its wish to avoid entangling Customs in private contractual disputes, the Copyright Office produced a preliminary draft of a copyright bill that contained two alternative importation prohibition provisions. Both alternatives clearly provided for the right to prevent parallel importation.[5]

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[5] The distinction between the alternatives related only to Custom's ability to seize imported works and to notify copyright owners of the importation of potentially infringing works. Alternative A did not require Customs to seize any imported works but provided for notification to the

In commenting on the Copyright Office's draft bill the General Counsel of the Copyright Office stated that the importation right covered both the importation of unauthorized copies and:

> the importation for distribution in the United States of foreign copies that *were made under proper authority* but that, if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States.

Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* 203 (Comm. Print. 1964) (emphasis added). The Supplementary Report of the Register further evidenced the intent that the 1976 Copyright Act protect against parallel importation:

> In the second situation covered by section 602, the copies or phonorecords were lawfully made but their distribution in the United States would violate the exclusive rights

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copyright owner of the importation. Alternative B allowed Customs to seize piratical copies but not "lawfully made" copies, and also provided for notification. Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Part 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft* 32-34 (Comm. Print 1964). *Accord* Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* 203-04 (Comm. Print. 1964) (comments of Abe A. Goldman, General Counsel of the Copyright Office).

> of the U.S. copyright owner. . . . [I]t would not be practicable for the Bureau of Customs to enforce a prohibition . . . "where the copies or phonorecords were lawfully made." On the other hand, unauthorized importation in this situation for the purpose of public distribution in the United States would be an infringement and could be enjoined.

Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill* 149-50 (Comm. Print 1965).

Recognizing that the interested parties generally agreed on the scope of the parallel importation right and the limited role of Customs in enforcing this right, the Register of Copyrights recommended and Congress adopted existing section 602 of the Copyright Act. The Register of Copyrights and both houses of Congress explicitly noted that section 602 assigned copyright infringement liability in two distinct situations: importation of piratical copies and importation of "lawfully made copies" (*i.e.*, parallel importation). S. Rep. No. 473, 94th Cong., 1st Sess. 151 (1975); H.R. Rep. No. 1476 at 169; *Second Supplementary Report of the Register of Copyrights on the General Revisions of the U.S. Copyright Law: 1975 Revision Bill*, 94th Cong., 1st Sess. 397 (1975); Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill* 149 (Comm. Print 1965).

Commenting on the language in section 602, Congress observed:

The second situation covered by section 602 is that where the copies or phonorecords were lawfully made but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights. As already said, the mere act of importation in this situation would constitute an act of infringement and could be enjoined. However, in cases of this sort it would be impracticable for the United States Customs Service to attempt to enforce the importation prohibition, and section 602(b) provides that, unless a violation of the manufacturing requirements is also involved, the Service has no authority to prevent importation, 'where the copies or phonorecords were lawfully made.'

S. Rep. No. 473 at 152; H.R. Rep. No. 1476 at 170. Under either situation, however, section 602(a) simply stated the general rule that unauthorized importation occurs any time the copies sought to be imported were "acquired outside the United States." S. Rep. No. 473 at 151-52; H.R. Rep. No. 1476 at 170.

The three exceptions to that general rule are contained within section 602(a). S. Rep. No. 473 at 151-52; H.R. Rep. No. 1476 at 170. They do not include the first sale doctrine, and none of them is applicable to the facts of the present case. *See* 17 U.S.C. 602(a)(1)-(3) (1997). When none of these exceptions apply, as in the instant case, the copyright owner may seek damages and an injunction. *See* S. Rep. 473 at 152; H.R. Rep. No. 1476 at 170. Accordingly, as the legislative history demonstrates, section 602(a) was intended to provide copyright owners with a right to prevent parallel importation, which is limited only by section 602(a)(1),(2), and (3) and the Customs limitations in section 602(b). Broadening the scope

of section 109(a), as Quality King argues, would be contrary to Congress's intent to provide copyright owners with a right to prevent parallel importation limited only by the express limitations in section 602.

V.
QUALITY KING'S INTERPRETATION OF SECTION 109(a) WOULD RENDER THE EXCEPTIONS IN SECTIONS 602(a) AND (b) SUPERFLUOUS

In addition to rendering section 602(a) meaningless, Quality King's interpretation of section 109(a) would also render the exceptions to the importation right in sections 602(a)(2) and (3) and section 602(b) superfluous. This Court has held that "courts should disfavor interpretations of statutes that render language superfluous." *Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253 (1992). Because Quality King's interpretation of section 109(a) results in superfluous provisions in the Copyright Act and the Court disfavors such interpretations, Quality King's interpretation of section 109(a) should not be adopted by the Court.

Section 602(a) is limited by section 602(b), which provides that Customs has the authority to seize imported copies only "where the *making* of the copies . . . would have constituted an infringement of copyright if [Title 17] had been applicable." 17 U.S.C. § 602(b) (1997) (emphasis added). Customs does not have the authority to seize "lawfully made" copies (*i.e.*, parallel imports). "In either case," however, Customs may provide notification to the copyright owner of the importation of copies of his work. 17 U.S.C. § 602(b) (1997). There would be no need for separate Customs procedures for lawfully and unlawfully made copies if section 602(a) did not

cover both. Under Quality King's interpretation there would be no need to notify the copyright owner of the importation of lawfully made copies because importers would merely have to assert their first sale privileges under section 109(a) to defeat a claim of copyright infringement.

Further, section 602(a)(2) provides that the right of importation in section 602(a) does not apply to importation "for the private use of the importer and not for distribution, by any person with respect to more than one copy . . . at any one time" or by any person entering the United States when the copies form part of the person's personal baggage. 17 U.S.C. § 602(a)(2) (1997). Similarly, section 602(a)(3)[6] provides for an exception to section 602(a) when the importation is "by or for an organization for scholarly, educational, or religious purposes." 17 U.S.C. § 602(a)(3) (1997). Under Quality King's interpretation of section 109, these exceptions have no effect because an importer or other person would be able to import works into the United States in circumstances broader than those permitted by section 602(a)(2) and (3), thereby dispensing with the need for any person ever to employ a defense to liability under these sections. In summary, Quality King's interpretation of section 109(a) should not be adopted because it would result in sections 602(a)(2) and (a)(3), and section 602(b) being superfluous.

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[6] This section's importance is demonstrated by the extensive discussion that accompanied its adoption. *See Copyright Law Revision Part 1: Hearings Before the Subcomm. No. 3 of the House Comm. on the Judiciary*, 89th Cong., 1st Sess. 1041-43, 1064-66, 1900-03 (1965).

VI.
THE STANDARDS USED BY THE COURTS TO DETERMINE LIABILITY FOR PARALLEL IMPORTATION IN TRADEMARK INFRINGEMENT CASES SHOULD NOT BE CONSIDERED OR APPLIED TO DETERMINE LIABILITY FOR PARALLEL IMPORTATION UNDER THE COPYRIGHT LAW

Although both trademark law and copyright law have been invoked by domestic manufactures to oppose parallel importation, their origin and purpose markedly differ from one another. *See Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (noting "the fundamental differences between trademark law and copyright law"). It follows that decisions rendered under trademark law with respect to parallel importation are not applicable to copyright cases.

The purpose of copyright is: "To promote the progress of science and useful arts, by securing for limited time to authors and inventors the exclusive right to their respective writings and discoveries." U.S. Const. art. I, § 8, cl. 8. It has been observed frequently that the primary purpose of copyright is not to reward the author, but to secure "the general benefits derived by the public from the labor of authors." *Fox Films Corp. v. Dayal*, 286 U.S. 123, 127 (1932). It is apparent, however, that the ultimate goal of benefiting the public is achieved under the United States system exclusively by means of fully benefiting the author with the provision of a "special reward." *Sony*, 464 U.S. at 429. The nature of this "special reward" is unequivocally economic. "The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors."

Mazer v. Stein, 347 U.S. 201, 219 (1959). The ends of copyright law are best served by providing the copyright owner an optimized "special reward."

On the other hand, federal trademark law, as embodied in the Lanham Act (15 U.S.C. §§ 1051-1127 (1997)), is intended to protect two distinct interests.

> [T]he purpose underlying any trade-mark statute is twofold. One is to protect the public so that it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriations by pirates and cheats.

S. Rep. No. 1333, 19th Cong., 2d Sess. 3 (1946).

Trademark cases dealing with parallel importation generally have focused on whether material differences exist between the domestic version and the parallel import, either in the product itself or its packaging. *See, e.g., Ferrero U.S.A, Inc.. v. Ozak Trading, Inc.*, 753 F. Supp. 1240 (D.N.J.), *aff'd*, 935 F.2d 1281 (3d Cir. 1991); *Societe Des Produits Nestle, S.A. v. Casa Hevetia Inc.*, 982 F.2d 633 (1st Cir. 1992). If such differences exist, importation is considered to be infringement. *Ferrero*, 753 F. Supp. at 1246; *Societe Des Produits Nestle, S.A*, 982 F.2d at 653. If not, there is ordinarily no infringement and no basis in trademark law to exclude the parallel import. *NEC Elec. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir.), *cert. denied*, 484 U.S. 851 (1987).

In concentrating solely on the consumer protection goal of the Lanham Act, thereby limiting the inquiry to the quality of the imported trademark goods compared to the domestic, the courts in these cases have largely looked past the interests of the trademark owner. In the context of copyright, however, *Bleistein v. Donaldson Lithography Co.* teaches that the aesthetic quality of the work is not an appropriate area of inquiry. 188 U.S. 239 (1903). Accordingly, the only interest that remains to be addressed is that of the copyright owner, which is best served by optimizing the "special reward" that copyright law bestows.

This Court has long recognized the difference between copyright law and trademark law and has consistently refused to import trademark law standards into the copyright law. *See Sony*, 464 U.S. at 439. In keeping with the precedents established by this Court, the trademark cases relating to parallel importation cited by Quality King should have no bearing on the outcome of this case.

VII.
QUALITY KING'S CLAIMS OF UNFAIRNESS ARE MORE APPROPRIATELY ADDRESSED, IF AT ALL, BY THE ANTITRUST LAWS OR THE DOCTRINE OF CONTRIBUTORY INFRINGEMENT THAN BY PROVISIONS IN THE COPYRIGHT ACT

To the extent that the Court might be reluctant to hold for L'anza in this case because of Quality King's claims that such a holding would be unfair (Pet.'s Br. at 11) or would allow businesses to circumvent the trademark laws related to parallel importation by asserting copyright claims to prevent parallel importation (Pet.'s Br. at 9), AIPLA respectfully submits that

such concerns should have no bearing on the decision in this case because there are other, more suitable means outside the Copyright Act for addressing such concerns. For example, the antitrust laws are tailored specifically to address the type of anticompetitive practices (*e.g.*, the "market allocation" (Pet.'s Br. at 33)) complained of by Quality King.[7]

Intellectual property should be treated under antitrust laws like all other forms of property. *See, e.g.*, Federal Trade Comm'm, U.S. Dep't of Justice, *Antitrust Guidelines for the Licensing of Intellectual Property* § 2.0, *reprinted in* 68 Antitrust & Trade Reg. Rep. (BNA) No. 1708, at S-3 (Apr. 13, 1995). Claims of anticompetitive practices related to parallel importation affect all areas of intellectual property, including patents, copyrights, and trademarks, and therefore, these claims are better addressed through the antitrust laws rather than tinkering with each of the individual intellectual property laws.

Another more suitable means in the copyright law for addressing such concerns would be under the doctrine of contributory infringement. A person may be liable as a contributory infringer only if that person knew of the infringing

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[7] We do not intend to indicate in any way that we agree with Quality King's claim that holding for L'anza would unfairly impact Quality King or that we believe that L'anza encroached upon any antitrust provisions. Rather, we believe there are better vehicles for resolving any perceived unfairness a holding for L'anza might generate. Further, to the extent that the antitrust laws might be used to address perceived unfairness with respect to a copyright owner's exercise of his or her parallel importation rights under the Copyright Act, no antitrust violation should ever exist when the copyrighted work is the essential object of the importation. For instance, when the goods being imported are sound recordings, books, motion pictures, computer software, or any other work identified in section 102 of the Copyright Act, no antitrust violation would be warranted.

activity and materially contributed to the infringing activity. *See Gershwin Publ'g Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). *See also Fonovisa, Inc. v. Cherry Auction Inc.*, 76 F.2d 259, 264 (9th Cir. 1996); *Universal City Studios v. Sony Corp.*, 659 F.2d 963, 975 (9th Cir. 1981), *rev'd on other grounds*, 464 U.S. 417 (1984); *Religious Tech. Ctr. v. Netcom On-Line Communication Serv., Inc.*, 907 F. Supp. 1361, 1373-75 (N.D. Cal. 1995). Consequently, when a person, other than the importer, distributes grey market goods in the United States, that person should not be held liable for direct infringement of section 602(a) because they have not imported the grey market goods. Rather, that person should be liable as a contributory infringer of section 602(a), provided the person knew that the imported goods were grey market goods and the person participated in the infringing act. As holding a person who knew their activity was infringing would not be unfair, it would not be unfair to hold a person liable as a contributory infringer for a violation of the right of parallel importation in section 602(a).[8]

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[8] Quality King is not the importer, and, therefore, it could be liable only for contributory infringement of section 602(a), not direct infringement of section 602(a). The facts of this case were silent as to knowledge and participation. *See Scorpio*, 569 F. Supp. at 48, which also involved a third party who received the goods from an importer. The *Scorpio* court did not address the issue of whether the third party was a contributory infringer, stating that "the question of whether defendant was the importer need not be resolved, in view of the law regarding vicarious and contributory infringement and the undisputed fact that International Traders was an importer."

CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals should be affirmed.

Respectfully submitted,

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IN THE SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1997

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit

BRIEF FOR THE NATIONAL CONSUMERS LEAGUE, THE NATIONAL ASSOCIATION OF MANUFACTURERS, THE COSMETIC, TOILETRY, AND FRAGRANCE ASSOCIATION, THE NONPRESCRIPTION DRUG MANUFACTURERS ASSOCIATION, AND THE COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS

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INTEREST OF THE AMICI CURIAE

This *amicus curiae* brief is submitted on behalf of the National Consumers League ("NCL"), the National Association of Manufacturers ("NAM"), The Cosmetic, Toiletry, and Fragrance Association ("CTFA"), the Nonprescription Drug Manufacturers Association ("NDMA"), and the Coalition to Preserve the Integrity of American Trademarks ("COPIAT") in support of respondent L'anza Research International, Inc.[1]

The NCL is America's pioneer consumer organization. For close to a century, NCL has advocated economic and social justice for consumers and workers in both the marketplace and the workplace. As part of its activities, NCL has examined the effect of the gray market on consumers and consumer well-being in a variety of product areas. NCL has also determined that the consumer harms created by the gray market can be averted through proper enforcement of U.S. intellectual property laws.

The NAM is the nation's oldest and largest broad-based industrial trade association. Its more than 14,000 member companies and subsidiaries, including 10,000 small manufacturers, employ approximately eighty-five percent of all manufacturing workers and produce over eighty percent of the nation's manufactured goods. More than 158,000 additional businesses are affiliated with the NAM through its Associations Council and National Industrial Council.

The CTFA is the leading national trade association representing the interests of the personal care products industry. Founded in 1894, CTFA has an active membership of approximately 300 companies that manufacture or distribute the vast majority of finished personal care products marketed in the United States. CTFA also represents approximately 300 associate member companies including manufacturers of raw materials and packaging.

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[1] Letters from both parties indicating consent to file this *amicus curiae* brief are on file with the Clerk. Pursuant to Rule 37.6, *amici* state that no counsel for either of the parties authored this brief in whole or in part. No person or entity, other than *amici curiae* and their members, made a monetary contribution to the preparation or submission of this brief.

CTFA membership includes companies large and small. More than 60 percent of CTFA members have yearly sales of $1 million or less. The personal care product industry is an important factor in the nation's economy, employing directly or indirectly more than two million people who are involved in the manufacture, distribution, marketing or sale of $22 billion worth of personal care products in the United States in 1996.

NDMA is the 116-year old national trade association representing manufacturers and distributors of nonprescription or over-the-counter (OTC) drugs. NDMA members account for over 90 percent of the retail sales of OTC drugs in the United States, including such well-known brands as Tylenol®, Bayer®, and Advil®.

Members of NAM, CTFA, and NDMA frequently use copyrighted works in the labels and package design of their products and have been injured as a result of gray market imports that display those works.

COPIAT is a trade association representing a total of approximately 12,000 businesses. COPIAT is dedicated to protecting the value of trademarks and copyrights in American industries by combatting all types of intellectual property fraud. In particular, COPIAT has worked for legislative, judicial, and regulatory changes designed to prevent the business injury to its members resulting from the importation and sale of gray market goods.

SUMMARY OF ARGUMENT

The decision below should be affirmed as a correct interpretation of section 602(a) of the Copyright Act, 17 U.S.C. § 602(a).

The gray market prevents a copyright owner from fully enjoying one of the exclusive rights granted by the Copyright Act—the right of domestic distribution—and thus diminishes the value of the copyright. This is equally true whether the work is itself copyrighted, such as a book or audio recording, or whether the copyright is in an original work created to package and market a commercial product, such as the hair care products at issue here. In both cases, the copyright is devalued because the gray market "free rides" off the integrity, quality, and investment associated with the sale of works authorized for distribution in this country. In addition, with respect to commercial products in particular, the value of the copyright is diminished if the consumer is deceived, injured, or otherwise dissatisfied with the purchase of an item not intended for the domestic market. Finally, the value of a copyright is further decreased when the market is oversaturated with copies of the work not intended for sale in this country or when copies are sold in inappropriate distribution channels.

In section 602(a) of the Copyright Act, Congress gave copyright owners the power to block importation and distribution of gray market goods. Section 602(a) ensures that a copyright owner gets the full benefit of its exclusive domestic distribution rights under section 106(3), which would otherwise be undermined by gray market imports. The language and legislative history of section 602(a) clearly covers the importation of gray market goods as well as pirated ones.

The first sale doctrine codified in section 109(a) of the Copyright Act does not negate section 602(a)'s right to block unauthorized imports. If the first sale doctrine were to apply, section 602(a)'s provisions would effectively be limited to pirated copies only, contrary to Congress's clear intent to have section 602(a) cover gray goods as well. Petitioner's attempts to construct

a handful of examples that would give "meaning" to section 602(a) with respect to importation of non-piratical goods must be rejected as inconsistent with the language and intent of the statute. Moreover, construing section 109(a) to apply to sales first made overseas is inconsistent with the territorial scope of the Copyright Act and would make section 109(a)'s "limitation" to section 106(3) broader than the section 106(3) right itself.

The Copyright Act allows a copyright owner to sue the distributor of any goods imported without authorization. The right holder is not limited to bringing suit only against the actual importer. In order to give copyright owners effective redress against all manner of infringement, the Copyright Act allows suit against anyone in the chain of distribution. The argument of *amici* Costco Companies, Inc., *et al.*, that these general principles of federal copyright law do not apply to section 602(a) must be rejected.

ARGUMENT

I. THE GRAY MARKET DIMINISHES THE VALUE OF THE COPYRIGHT BY UNDERMINING A COPYRIGHT OWNER'S EXCLUSIVE RIGHT TO DISTRIBUTE THE COPYRIGHTED WORK IN THE UNITED STATES.

In the decision under review, the Ninth Circuit correctly recognized that the gray market diminishes the value of a copyrighted work by interfering with the copyright owner's exclusive right to domestic distribution.[2]

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[2] "Gray market" goods are defined as goods that are intended for sale in a foreign market but are diverted for sale in this country through unauthorized channels of distribution.

This is a more comprehensive definition of "gray market" than that set forth by this Court in *K Mart Corp. v. Cartier, Inc.* 486 U.S. 281 (1988), which defined a gray market good as a "foreign-manufactured good, bearing a valid U.S. trademark, that is imported without the consent of the U.S. trademark holder." *Id.* at 285. Although many gray market goods *are* manufactured abroad for sale abroad, some (including the ones (continued...)

Section 106 of the Copyright Act confers a bundle of exclusive rights to the owner of the copyright. These rights are "intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984); *accord Harper & Row v. Nation Enterprises*, 471 U.S. 539, 546 (1985) (quoting *Sony*).

Among the exclusive rights granted to a copyright owner is the right to "distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3). This right encourages artistic creativity that ultimately redounds to the public benefit by ensuring that the author of a copyrighted work can distribute the work to the public and thus "secure a fair return" for his or her labors. *See Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). By making this right exclusive, the statute recognizes that an author cannot secure a fair return if he or she cannot control the scope and manner of distribution.

Section 106(3)'s grant of exclusive distribution rights extends only to the United States and its territories and possessions, because the U.S. copyright laws do not operate outside the territorial confines of the United States. *See United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260 (1908); *see generally* Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of*

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[2](...continued)
at issue here) are manufactured domestically and then exported. Similarly, although many gray market goods are trademarked, others (including the ones at issue here) are subject to copyright or patent protection, or some combination of the three.

Gray market goods are sometimes inaccurately referred to as "parallel imports." While all gray market goods are intended for sale abroad and are imported into the United States, goods intended for domestic distribution are frequently manufactured in this country. In such circumstances, it cannot truly be said that there is any "parallel importation" because the authorized goods are not imported at all.

Globalism, 37 VA. J. INT'L L. (forthcoming 1997). Because the United States has acceded to the Berne Convention, a work published in the U.S. will be protected by copyright in other signatory countries, as well as domestically. However, the copyright owner's rights abroad are determined by the laws of each individual signatory country. *See* Berne Convention for the Protection of Literary and Artistic Works, art. V(1) (Paris 1971), Sen. Treaty Doc. No. 27, 99th Cong. 2d Sess., 40 (1986); *see also* Universal Copyright Convention, 25 UST 1341, art. II (1971). In other words, a copyright owner's right to distribute his or her work in countries other than the United States is governed by the law of each country and not by the U.S. Code.

As we explain below, a copyright owner's exclusive right under section 106(3) to control distribution of copies of the copyrighted work in this country is substantially undermined by the gray market. This is equally true whether the good is itself copyrighted, such as a book or audio recording, or whether the copyright is in an original work created to package and market a commercial product, such as the hair care products at issue here.[3]

The principal way in which the gray market can diminish the value of an intellectual property right is by the gray marketer's

[3] Contrary to the suggestion of petitioner, Pet. Br. at 33, Congress has long recognized that a label or design on an article of merchandise, if original and sufficiently creative, is appropriately protected through copyright. In 1939, Congress amended the 1909 Copyright Act specifically to include "prints or labels used for articles of merchandise" as copyrightable subject matter. *See* Act of July 31, 1939, ch. 396, §§ 2, 3, 53 Stat. 1142. When the copyright law was overhauled in 1976, Congress made clear that in amending the definition of copyrightable "pictorial, graphic, and sculptural" works it had "no intention whatever to narrow the scope of the subject matter now characterized . . . as 'prints or labels used for articles of merchandise.'" H.R. REP. NO. 1476, 94th Cong., 2d Sess. 54 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5667. To be copyrightable, labels require a higher degree of originality than other writings *See* 1 Melville B. Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 2.08[G][3] (1996).

"free ride" off the investment of the U.S. right holder.[4] It is frequently the product's copyrighted packaging that makes it recognizable or appealing to consumers. Without the copyrighted label or design, there would be no "market" for gray goods because gray marketers do not themselves engage in design, advertising, marketing, or promotion for these goods and instead make their profits by relying wholly on the efforts made by others.

In other words, a gray market for a product can develop regardless of whether U.S. prices are higher, lower, or equal to foreign prices. It is not a function of a "discriminatory pricing regime," as repeatedly alleged by petitioner. Pet. Br. at 2-3, 11, 31. All that is necessary for a gray market to flourish is that the value added to the product by the U.S. copyright or trademark owner—through quality control, advertising, and marketing—be greater than the shipping costs to the United States.

Needless to say, copyright owners and other intellectual property right holders lose money when gray marketers "free ride" off their investment. In order to establish brand recognition and to develop consumer markets, U.S. businesses must make significant investments in product innovation, services, and marketing, including the creation of original art works to serve as labels or packaging. *See, e.g., Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1381 (C.D. Cal. 1993) (finding copyrighted package design to be "an important part" of product's overall marketing scheme). A copyright owner does not get the benefit of this investment if a gray market can use the product

[4] *See* Richard A. Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 COLUM. L. REV. 282, 285 (1975); *see also CIT Judicial Conference Examines Grey Goods Issue*, 31 Pat. Trademark & Copyright J. (BNA) No. 755, at 36 (Nov. 14, 1985) (reporting position of International Trade Commission that gray market exists because of "free ride" and not due to price discrimination between markets).

recognition and appeal that has been created in the work to take sales away from authorized distributors.[5]

The second way in which the gray market devalues a copyrighted work associated with a commercial product is by way of its deleterious effect on U.S. consumers due to the differences in quality, integrity, and safety between authorized and gray market goods. A copyright owner who creates an appealing and original package design, and then invests in marketing and promotional efforts that feature the copyrighted work, has wasted its efforts if consumers are ultimately harmed or disappointed due to their purchase of a gray market product.[6]

This consumer dissatisfaction arises because gray market goods are designed to conform to the laws, standards, and consumer preferences of the *foreign* countries in which they are intended to be sold. For example, gray market electronic products may operate

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[5] Contrary to popular belief, gray market importers do not always pass along their "free-riding" profits to U.S. consumers. Like other economic actors, gray market importers charge what the market will bear, and it is not unusual to find gray market goods priced at or above the prices charged for authorized products. *See In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823, 826 (I.T.C. 1984), *rev'd*, 225 U.S.P.Q. 862 (1985); *see also Gray Market Is Giving Hair-Product Makers Gray Hair*, N.Y. TIMES, July 13, 1997, § 1, at 28 (price survey revealed that gray market products are frequently more expensive than their authorized counterparts).

[6] This scenario will most commonly occur when the copyrighted work is operating in conjunction with or as a trademark, *i.e.*, when consumers use the creative work to identify the product as coming from a particular source. The Lanham Act protects against importation of trademarked gray market goods that materially differ from their U.S. domestic counterparts, even if the foreign and domestic trademark owners are affiliated. *See, e.g., Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993); *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992); *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir. 1987). The fact that these gray market harms may be averted through proper application of trademark law, however, does not mean that they are not also relevant in the copyright context.

only with foreign voltage requirements, *see Yamaha Corp. of America v. United States*, 745 F. Supp. 730, 730-31 (D.D.C. 1990), *aff'd*, 961 F.2d 245 (D.C. Cir. 1992), *cert. denied*, 506 U.S. 1078 (1993); detergents may be made for different water conditions, *see Lever Bros. Co. v. United States*, 877 F.2d 101, 103 (D.C. Cir. 1989); toothpaste may have fluoride levels that are dangerously high for the U.S., where the water is already fluoridated, *see Legislation to Amend the Lanham Trademark Act Regarding Gray Market Goods: Hearing on S.616 Before the Subcomm. on Patents, Copyrights, and Trademarks of the Senate Comm. on the Judiciary*, 100th Cong., 2d Sess., at 520-25 (1990) (statement of the Nat'l Council of Senior Citizens); soaps and beauty products may have a different chemical composition or fragrance, *see Helene Curtis v. National Wholesale Liquidators, Inc.*, 890 F. Supp. 152, 155 (E.D.N.Y. 1995); food-stuffs may contain traces of pesticide not approved for use in the United States or may have a different nutritional or caloric content, *see Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F. Supp. 1240, 1243 (D.N.J.), *aff'd*, 935 F.2d 1281 (3d Cir. 1991); and operating instructions may be in a foreign language, *see Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163, 1168-69 (S.D.N.Y. 1984).

Even if the gray market good is physically identical to its authorized counterpart at the time of manufacture, it can be damaged or altered at the point of sale because of poor shipment and handling or because of deterioration en route. *See, e.g., Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 642 (1st Cir. 1992); *Grupo Gamesa, S.A. de C.V. v. Dulceria el Molino, Inc.*, 39 U.S.P.Q.2d 1531, 1532-33 (C.D. Cal. 1996). Furthermore, gray market merchandise is virtually never eligible for factory-authorized repairs or covered by U.S. warranties for domestic goods. *See, e.g., United States v. Eighty-Three Rolex Watches*, 992 F.2d 508, 509 (5th Cir. 1993); *John Paul Mitchell Sys. v. Pete-n-Larry's, Inc.*, 862 F. Supp. 1020, 1926 (W.D.N.Y. 1994). Finally, because gray market goods are, by definition, sold outside of authorized distribution channels, it can be very difficult for a manufacturer or government agency to determine where or how to implement recall or other safety notices.

Despite the significant differences that can exist between authorized and gray market goods, consumers are almost never advised that they are purchasing goods not intended for sale in this country. As *amici* Costco Companies *et al.* points out, it is not unusual that these goods appear side-by-side on a shelf with authorized goods. Costco Br. at 25. Therefore, a consumer deceived, injured or dissatisfied with a gray market purchase is not likely to "try again" and buy an authorized product. The end result is that a copyright owner who has invested substantial time and money in creating an original package design that appeals to consumers will not be getting the repeat sales that the investment may otherwise have generated.

The final way in which the gray market devalues a copyright associated with an unauthorized import is by depriving a copyright owner of the opportunity to control the scope and manner of distribution of the copyrighted work. An author of a work may well determine that the best way to profit from his or her creative endeavor is to make it available only through select distributors or in a limited quantity. Section 106(3) makes this decision the prerogative of the copyright owner. Although the copyright law is intended to allow public enjoyment of these works over time, there is no requirement that distribution be widespread during the author's limited period of exclusive control.[7]

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[7] Nor does any other area of the law prevent a copyright owner from limiting distribution to certain retailers. In *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977), this Court reversed *United States v. Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), and held that it is not presumptively anticompetitive or unlawful for a manufacturer to limit the distributors permitted to sell its products. Applying the rationale of *GTE Sylvania* in the copyright context, federal antitrust guidelines conclude that territorial and other restrictions can be procompetitive because they give "an incentive to invest in the commercialization and distribution of products" by "protecting . . . against free-riding". *Antitrust Guidelines for the Licensing of Intellectual Property*, 68 Antitrust & Trade Reg. Rep. (BNA) No. 1708 (Special Supp.) at S-4 (April 13, 1995) (emphasis added). *Accord GTE Sylvania*, 433 U.S. at 55 (referring to "free riders" as a "market imperfection").

Gray market operators undermine this exclusive control by importing copies of works not intended for domestic distribution and, most commonly, by selling the unauthorized imports in mass-merchandise "discount" stores. As supply increases, the price which the copyright owner can obtain for the copyrighted work will decrease. Most likely, demand also will be affected by a drop in the work's quality, integrity, safety level, or prestige as a result of availability through channels of distribution that have lower standards of quality and supervision or may otherwise be undesirable. This will further drive down the price of the works intended for domestic distribution, and is just one more example of how the gray market prevents a copyright owner from fully enjoying the rights granted under section 106(3).

II. THE COPYRIGHT ACT PROTECTS A U.S. COPYRIGHT FROM DIMINISHMENT BY GRAY MARKET IMPORTS.

A. Section 602(a) Grants a Copyright Owner the Right to Control Imports.

Given the potentially devastating impact of the gray market on right holders, it is not surprising that the law gives copyright owners some protection against it. Section 602(a) of the Copyright Act makes actionable the "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States." 17 U.S.C. § 602(a).

Section 602(a) states that unauthorized importation is "an infringement of the exclusive right to distribute copies or phonorecords under section 106." *Id.* This does not mean, as petitioner argues, that the rights conferred by section 602(a) are merely a subset of the exclusive distribution rights conferred by section 106(3). To the contrary, the statute clearly establishes section 106(3) and section 602(a) as complementary rights, providing a ban on unauthorized importation in order to allow a copyright owner to receive the full benefit of its distribution right under section 106(3).

That the importation ban in section 602(a) is not subsumed by the distribution right in section 106(3) is evident by section 501(a), which lists the two as separate and distinct bases for infringement: "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . *or* who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright." 17 U.S.C. § 501(a); *see also* 17 U.S.C. § 511(a).

There is no question but that section 602(a) was intended to include a ban on importation of gray market goods. The language of the statute is straightforward: Except for a few enumerated exceptions, such as the one for personal use, unauthorized importation of copyrighted works into the United States is an infringement of the copyright. The statute makes no distinction between pirated copies and goods made with the copyright owner's consent but not authorized for sale in this country.

The legislative history of section 602(a) confirms that Congress intended to make unauthorized importation an infringement of copyright even when the goods in question were made with the consent of the copyright owner for sale outside of the United States. For example, both the House and Senate reports accompanying the final bill that became section 602(a) state:

> "Section 602 . . . deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), *and unauthorized importation of copies or phonorecords that were lawfully made.* The general approach of section 602 is to make unauthorized importation an act of infringement in both cases, but to permit the United States Customs Service to prohibit importation only of 'piratical' articles." H.R. REP. NO. 1476, 94th Cong., 2d Sess. 169 (1976), *reprinted in* 1976 U.S. CODE CONG. & AD. NEWS 5659, 5785 (emphasis added); *see also* S. REP. NO. 473, 94th Cong., 1st Sess. 151 (1975).[8]

Contrary to petitioner's suggestion, *see* Pet. Br. at 3, 11, 31, the legislative history also leaves no doubt that section 602(a) was intended to provide a mechanism whereby a copyright owner could enforce its territorial restrictions on distribution without resort to a breach of a contract suit against its overseas distributor. *See Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1389-90 (C.D. Cal. 1993). In the long deliberations leading up to the Copyright Act of 1976, of which section 602(a) is a part, the Copyright Office initially opposed a ban on unauthorized but lawfully made imports, stating that it was reluctant to "impose the territorial restriction in a private contract upon third persons with no knowledge of the agreement."[9] Various industry officials and scholars, however, took issue with the Copyright Office's position and argued vigorously for a statute that would protect territorial distribution rights.[10] The Copyright Office thereafter changed its position, supporting a draft provision that eventually became section 602(a).[11]

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[8] Although this joint statement by both houses of Congress is the most "reliable" guide to congressional intent, *see Simpson v. United States*, 435 U.S. 6, 17-18 (1978) (Rehnquist, J., dissenting), it is all but ignored in the briefs supporting the petitioner.

[9] STAFF OF HOUSE COMM. ON THE JUDICIARY, 87TH CONG. 1ST SESS., COPYRIGHT LAW REVISION (PART 1): REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 126 (Comm. Print 1961).

[10] *See* STAFF OF HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 1ST SESS., COPYRIGHT LAW REVISION (PART 2): DISCUSSION AND COMMENTS ON REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 212-14, 232, 275, 327 (Comm. Print 1963).

[11] *See* STAFF OF HOUSE COMM. ON THE JUDICIARY, 89TH CONG., 1ST SESS., COPYRIGHT LAW REVISION (PART 6): SUPPLEMENTARY REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 149-50 (Comm. Print 1965).

B. The First Sale Doctrine of Section 109(a) Does Not Negate the Right to Block Unauthorized Imports of Goods Not Previously Distributed in the United States.

Petitioner claims that section 602(a)'s ban on unauthorized imports is negated in this case by section 109(a) of the Copyright Act. That section provides:

> "Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. § 109(a).

Petitioner and its supporting *amici* argue that this so-called "first sale" doctrine operates to limit section 602(a) in all but a handful of circumstances.

The courts that have addressed the interaction among the distribution right of section 106(3), the first sale doctrine of section 109, and the ban on unauthorized imports in section 602(a) have reached three different conclusions.

On one extreme is the decision of the Third Circuit in *Sebastian Int'l, Inc. v. Consumer Contacts, Ltd.*, 847 F.2d 1093 (3d Cir. 1988). In that case, the court held that a first sale by the copyright owner, anywhere in the world, extinguishes any right later to prevent importation of those copies. *See* 847 F.2d at 1098. In other words, if the copyright owner distributes the material abroad, it cannot complain if that material is later diverted back into the United States for distribution and sale. *Id.*; *see also Neutrogena Corp. v. United States*, 7 U.S.P.Q.2d 1900 (D.S.C. 1988); *Cosmair v. Dynamite Enters.*, 226 U.S.P.Q. 344 (S.D. Fla. 1985).[12]

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[12] The *Sebastian* case involved goods first manufactured in the United States and then exported for sale, 847 F.2d at 1098, but the court's reasoning suggests that the same result would obtain even if the goods had been manufactured and first sold overseas. *See id.* at 1098 & n.1; *see also Red Baron-Franklin Park, Inc. v. Taito Corp.*, 9 U.S.P.Q.2d 1901, 1903 (continued...)

The great majority of courts that have considered the issue have rejected the reasoning in *Sebastian*, at least with respect to goods that were first manufactured and sold overseas. Most of these have followed the decision of the district court in *CBS v. Scorpio Music Distribs.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984). The court in *Scorpio* reasoned that an item manufactured overseas is not "lawfully made under this title" within the meaning of section 109(a) and therefore is not subject to that section's first sale defense. *See* 569 F. Supp. at 49; *see also Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995); *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992); *Original Appalachian Artworks, Inc. v. J.F. Reichert, Inc.*, 658 F. Supp. 458, 463 (E.D. Pa. 1987); *CBS, Inc. v. Casino Record Distribs., Inc.*, 654 F. Supp. 677 (S.D. Fla. 1987); *Hearst Corp. v. Stark*, 639 F. Supp. 970 (N.D. Cal. 1986); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985); *Nintendo of America, Inc. v. Elcon Indus., Inc.*, 564 F. Supp. 937, 943-44 (E.D. Mich. 1982).

In the decision below, the Ninth Circuit followed a third approach. It did not rely on *Scorpio*'s interpretation of the words "lawfully made under this title" in section 109(a), but instead held that section 602(a) would be rendered meaningless if a first sale abroad could be a defense to unauthorized importation. *L'anza Research Int'l, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109, 1114 (9th Cir. 1996); *see also Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1386 (C.D. Cal. 1993) (rejecting approach of *Scorpio*). Thus, the court held that section 109(a) did not supersede section 602(a)'s ban on unauthorized imports, even when the goods are manufactured domestically and then exported.

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[12](...continued)
(E.D. Va. 1988) (holding that a "logical and important" extension of *Sebastian* decision would apply to goods manufactured overseas), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990).

Of the three approaches exemplified by *Sebastian*, *Scorpio*, and *L'anza*, the broad reasoning in *Sebastian*—which is echoed in the briefs of petitioner and its supporting *amici*—finds the least support in the language of the Copyright Act and its legislative history.

First, and most important, the reading of section 109(a) that was adopted by the Third Circuit and is urged by petitioner completely undercuts the efficacy of the import bar expressly provided by Congress in section 602, because virtually all gray market goods have been the subject of a first sale abroad. If section 109(a) were to govern foreign sales, it would render section 602(a) "virtually meaningless" except as to pirated copies. *BMG Music*, 952 F.2d at 319 (quoting *Scorpio*, 569 F. Supp. at 49). The statute clearly was intended to have a broader effect. *See supra* pp. 12-13.

In order to give section 602(a) some "meaning" under their expansive reading of the first sale doctrine, petitioner and its supporting *amici* strive mightily to contrive examples of where the statute might still be applicable. None of these examples finds support in the legislative history or the case law. Petitioner surmises, for example, that section 602(a) was intended to provide an additional remedy that otherwise would not exist because it allows a copyright owner to block importation of infringing copies before they have actually been distributed in this country. Pet. Br. at 24-25. This innovative argument must be rejected in light of the fact that U.S. copyright law for over 200 years has expressly prohibited the mere act of "importation" of infringing copies into this country and has distinguished that act from dissemination to the public. *See* Copyright Act of 1790, ch. 15, 1 Stat. 124; Act of March 3, 1891, ch. 565, § 7, 26 Stat. 1104, 1109; Copyright Act of March 4, 1909, ch. 320, § 30, 35 Stat. 1075, 1082. Congress' statement that section 602(a) of the 1978 Act would allow a copyright owner to bring an action for infringement "even before any public distribution in this country has taken place" did not signal a change in policy, but was simply a restatement of the law. H.R. REP. NO. 1476, at 170; S. REP. NO. 473, at 152.

Petitioner also argues that section 602(a) has "meaning" with respect to non-piratical copies because section 109(a) would not prevent the copyright owner from blocking unauthorized importation

of copyrighted works by a thief, bailee, renegade licensee, or unrelated owner of the foreign copyright—on the ground that none of these would be "owner[s]" of the particular work within the meaning of section 109(a). Pet. Br. at 26-28.

According to this reading of the statute, Congress intentionally made importation rights turn on the precise legal relationships among manufacturers, middlemen and distributors. Such a result would not only be "unfortunate," but is also unsupported by any congressional indication that the statute was intended to address only these few types of wrongs. NIMMER ON COPYRIGHT, § 8.12[B][6], at 8-159 n.102 (1996). The result urged by petitioner is even more complicated, and less defensible, when it further circumscribes the "meaningful" interpretation of section 602(a) by suggesting that one who purchases an infringing work from an unlawful source (including, presumably, a thief) would nonetheless be protected by "the plain language" of section 109(a), regardless of the work's illegitimate provenance. Pet. Br. at 27 n.11.

The meaning attributed to section 602(a) by *amici* Costco Companies *et al.* is even more curious. Like the petitioner, Costco attempts to give content to section 602(a) by looking not to the language of that section but rather to section 109(a). While petitioner focuses on narrow permutations of the word "owner," Costco focuses on whether the owner is in possession of a copy "lawfully made under this title." According to Costco, a copy made by the copyright owner in the United States is "lawfully made under this title," as is a copy made by an assignee or licensee of the U.S. copyright, or a copy made by or for the copyright owner overseas.[13] This would make section 602(a) ineffective against

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[13] In support of this last proposition, Costco cites *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 117 S. Ct. 190 (1996), and *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995). The *Denbicare* case was not concerned with where the goods had been *made* but whether they had been *sold* in the United States by the copyright owner or with its authority. *See* 84 F.3d at 1150. In the *Drug Emporium* case, the court (continued...)

virtually all gray market imports. However, Costco concludes, section 602(a) retains some meaning because it still allows a copyright owner to bring an action against importers of works made pursuant to assignments or licenses of *foreign* copyrights because these works, while "lawfully made," are not made "under this title." Costco Br. at 9-12.

Costco cannot point to any relevant authority supporting its unnatural parsing of the phrase "lawfully made under this title" into two separate legal requirements that give "meaning" to section 602(a). Moreover, such a reading would entail that Congress in 1976 foretold the eventual U.S. accession to the Berne Convention in 1989 and sought to ensure that when the U.S. joined this system of mutual and immediate recognition of copyrights without condition, U.S. copyright holders, although they have no other protection from the gray market, could assign or license the corresponding foreign copyrights without fear of injury from unauthorized imports.

The only cases cited by Costco in support of its "Case 1" and "Case 2" breakdown of section 109(a) are patent cases. Costco Br. at 15-18. This reliance on patent law is misplaced for a number of reasons. First, until January 1, 1988, patent law had no "importation" restriction analogous to section 602(a). *See* Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 9003, 102 Stat. 1564 (1988), *codified at* 35 U.S.C. § 271(g); *see generally* Peter D. Rosenberg, 3 PATENT LAW FUNDAMENTALS § 17.02 (3d ed. 1997). Prior to this express limitation, the gray market issue arose only "rarely" and was far from settled. *See* 5 Donald S. Chisum, CHISUM ON PATENTS § 16.03[2][a][iv] (1997).

In the few patent cases that have addressed the issue, the defining principle is not, as Costco asserts, whether the U.S. and foreign right holders are distinct entities, but whether the seller

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[13](...continued)
questioned whether the "lawfully made under this title" language of Section 109(a) was of any relevance at all to the section 602(a) inquiry. *See* 38 F.3d at 482. Neither case supports Costco's position.

abroad can be presumed by the foreign sale to have conveyed the right to sell in the United States. *See Boesch v. Graff*, 133 U.S. 697, 702-03 (1890); *Daimler Mfg. Co. v. Conklin*, 170 F. 70, 72 (2d Cir. 1909), *cert. denied*, 216 U.S. 621 (1910); *Sanofi, S.A. v. Med-Tech Veterinarian Products, Inc.*, 222 U.S.P.Q. 143, 148-49 (D. Kan. 1983); *Griffin v. Keystone Mushroom Farm, Inc.*, 453 F. Supp. 1283, 1285-86 (E.D. Pa. 1978); *see also Holiday v. Mattheson*, 24 F. 185 (S.D.N.Y. 1885) (no infringement where U.S. patentee sold patented article in a foreign country without any restrictions on resale).[14]

Central to the decision in these cases is that patent exhaustion is limited by nationwide boundaries and that "[t]he sale of articles in the United States under a United States patent cannot be controlled by foreign laws." *Boesch v. Graff*, 133 U.S. at 703; *see also Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972) (patent law "makes no claim to extraterritorial effect"); *Griffin*, 453 F.Supp at 1285 (construing *Boesch* and *Deepsouth* to hold that Italian and American patents do not have to be owned by different persons in order for patentee to sue for infringement due to unauthorized importation from Italy).

The pinched "meanings" given to section 602(a) by petitioner and its supporting *amici* have no basis in the language of the statute or in the case law. Indeed, one is forced to wonder why industry representatives, officials from the Copyright Office, and successive Congresses would debate the scope and wording of the statute for nearly two decades to address such a limited handful of cases. Petitioner asks the Court to believe that Congress ultimately resolved this debate *sub silentio* by granting copyright owners extensive protections in section 602(a), only to have 99% of its protection eroded by application of section 109(a), even though neither statutory provision refers to the other.

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[14] *See generally* Brian D. Coggio and Adriane M. Antler, *The Utilization of United States Patents to Prevent the Importation and Sale of Gray Goods*, 83 TRADEMARK REP. 481 (1993); Hillary A. Kremen, Note, *Caveat Venditor: International Application of the First Sale Doctrine*, 23 SYRACUSE J. INT'L L. & COM. 161, 179-81 (1997).

If, as petitioner and its *amici* argue, Congress intended section 109(a) to carve such a gaping hole in section 602(a), then the first sale doctrine would have been one of the enumerated exceptions in section 602(a). That section expressly exempts importation of a work intended for governmental use, personal use, or use by an eleemosynary organization. "Where [as here] Congress explicitly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied, in the absence of evidence of a contrary legislative intent." *Andrus v. Glover Construction Co.*, 446 U.S. 608, 616-17 (1980). In this case, not only is section 109(a) not referenced, but introducing a first sale defense into section 602(a) would "obviate" the need for the exemptions that Congress did list, "since these copies will often be lawfully made gray market goods purchased through normal market channels abroad." 2 P. Goldstein, COPYRIGHT § 5.6.1 at 5.115-16 (1996); *see also C&C Beauty Sales*, 832 F. Supp. at 1388. For example, one of section 602(a)'s exceptions is for a "single" item imported for private use "and not for distribution." 17 U.S.C. § 602(a)(2). Yet, under petitioner's reading of section 109(a), a gray marketer would be entitled to distribute on a large scale what the individual importer cannot do for the single copy whose importation is specifically authorized by statute.

In addition to rendering section 602(a) and its enumerated exceptions "virtually meaningless," the position urged by petitioner, and the *Sebastian* case on which it is predicated, creates an inconsistency between section 106(3)'s grant of exclusive distribution rights and the express exception to that statutory grant in section 109(a). As discussed above, section 106(3) grants a copyright owner exclusive distribution rights only in the United States. *See supra* pp. 5-6. The statute does not purport to grant the copyright owner any right to distribute overseas. This is consistent with the "longstanding principle of American law 'that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.'" *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991); *see also Subafilms, Ltd. v. MGM-Pathe Communications. Co.*, 24 F.3d 1088, 1091, 1095-96 (9th Cir. 1994) *(en banc)* (applying this

principle to copyright laws); *Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988) (same).

By virtue of the Berne Convention and other international treaties, a U.S. copyright owner may automatically acquire foreign copyrights in the work, but distribution of the work overseas is governed by the copyright law of the foreign country not by U.S. law. *See DeBardossy v. Puski*, 763 F.Supp. 1239, 1245 (S.D.N.Y. 1991) (international copyright conventions provide for nondiscrimination against works of foreign origin but do "not expand a member state's copyright laws extraterritorially").

Section 109(a), which is entitled a "limitation[ ] on exclusive rights", makes an express exception to the exclusive distribution rights of section 106(3) when the copyright owner has already made a "first sale" under that section. Petitioner's reading of section 109(a) is that it *also* prevents a copyright owner from bringing suit under section 602(a) for the unauthorized importation of goods over which the copyright owner has *never* exercised its section 106(3) domestic distribution rights, because the works were not intended for sale in the United States. There is no indication in the statute or the legislative history, however, that Congress intended section 109(a) to sweep more broadly than the section 106(3) domestic distribution right it was intended to limit. Section 109(a) by its terms does not purport to confer any right to *import* copyrighted works into the United States. It merely confers a right to "sell or otherwise dispose of the possession" of works already in this country by lawful means. *See C&C Beauty Sales*, 832 F. Supp. at 1389; *Sebastian Int'l, Inc. v. Consumer Contacts, Ltd.*, 664 F. Supp. 909, 918-20 (D.N.J. 1987).[15]

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[15] Based on similar principles recognizing that a limitation of a right cannot exceed the right's territorial scope, the law in Europe prior to formation of the European Community (EC) was generally that a copyright owner's national distribution rights were not extinguished ("exhausted") by a first sale in another country. *See* Jan Corbet, *The Law of EEC and Intellectual Property*, 13 J.L. & COM. 327, 333 (1994). Since formation of the EC and its recognition of EC-wide intellectual property rights, the (continued...)

Contrary to the argument of *amici* Costco Companies *et al.*, statutory limitations on the rights of U.S. copyright owners are not presumed to be triggered by "operative acts" occurring outside the United States. The "operative acts" identified by Costco all *create* or transfer rights based on actions overseas. Costco Br. at 18-21. However, the Copyright Act does not expressly or implicitly recognize any extraterritorial "operative" actions that might serve to limit or prevent the exercise of domestic rights. *See United Dictionary*, 208 U.S. at 264-66 (failure to publish copyright notice on foreign editions does not defeat copyright in U.S.); *see also Beechwood Music Corp. v. Vee Jay Records, Inc.*, 328 F.2d 728, 729 (2d Cir. 1964) (Friendly, J.) (licensing of reproductions of sound records abroad does not trigger the compulsory license provisions in the U.S.).

This failure to recognize the territoriality of the section 106(3) distribution right mars not only the reasoning in *Sebastian*, but also that underlying the *Scorpio* line of cases, which hold that the first sale defense applies only to goods manufactured in this country. *See supra* p. 15. Although *Scorpio* rightly recognized that application of the first sale doctrine to section 602(a) renders it "virtually meaningless" with respect to non-piratical goods, it also held that section 109(a)'s limitation for goods "lawfully made under this title" means that section 602(a) does not apply to goods manufactured in this country and then exported for sale. *Scorpio*, 569 F. Supp. at 49. As we have shown, this reading of the statute

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[15](...continued)
Court of Justice of the European Communities has taken the position that once an owner of an intellectual property right consents to market his or her product in one EC Member State, under Community law that right is exhausted and the owner cannot thereafter use it to restrain unauthorized importation of that product into another EC Member State. *See id.* at 335-36. However, the marketing of a product *outside* the EC by the copyright owner or a licensee does not exhaust the right to bar unauthorized importation into the EC. *See, e.g., Polydor v. Harlequin Record Shops*, [1982] ECR 329; *see generally* Allen M. Shinn, *Liabilities Under Article 42 of the U.N. Convention on the International Sale of Goods*, 2 MINN. J. GLOBAL TRADE 115, 138-39 (1993).

is in conflict with the principles governing the territoriality of copyrights and must be rejected in favor of the approach taken in the decision below—that section 109(a) is simply not applicable to section 602(a) to the extent that it involves goods for which the section 106(3) right has never been exercised.

In disregarding the place of manufacture, the approach taken by the Ninth Circuit in the decision under review accurately reflects not only the territorial scope of the section 106(3) distribution right but also the actual language of section 602(a), which focuses uniquely on where a copy was acquired, not where it was made.[16] Section 602(a) is directed to the unauthorized importation of copies "acquired outside the United States." This focus on copies acquired abroad dovetails perfectly with a territorial reading of section 109(a), which limits application of the first sale doctrine to copies first distributed in the United States under the domestic distribution right of section 106(3). The court below correctly reconciled sections 106, 109, and 602 by determining that copies first distributed in the United States pursuant to section 106(3)'s domestic distribution right could be subject to the "first sale" defense to efforts to control their later disposition, while copies distributed and acquired abroad could not.

In reaching this conclusion, it was proper for the court to look to whether the actions complained of would frustrate the copyright owner in enjoying the "full value" of the copyrighted works intended for domestic distribution. As demonstrated in Part I of this brief, the gray market severely devalues a copyright by undermining the copyright owner's exclusive right to domestic distribution. *See supra* pp. 6-11. The court did not focus, as petitioner suggests, on whether the copyright owner realized "full value" for the goods intended for foreign distribution before they were diverted for sale in the United States. Pet. Br. at 11-12, 32-32. Instead, the court focused, properly, on the impact of the gray market on the goods authorized for sale in this country. *See L'anza*, 98 F.3d at 1117

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[16] A contrast to section 602(a)'s focus on the place of acquisition can be found in section 601, which expressly restricts importation of certain material based on its place of manufacture. *See* 17 U.S.C. § 601.

("the unauthorized importation of these goods undercuts L'anza's ability to receive the full value for L'anza products sold in the United States through authorized channels"); *see also C&C Beauty*, 832 F. Supp. at 1386 (gray market "prevents the United States copyright owner from realizing the full value of each copy released into the United States market with his authorization").

The test of whether certain actions diminish the value of a copyright has long been applied by this Court in determining whether there has been an infringement of a copyright owner's exclusive rights. *See, e.g., Harper & Row*, 471 U.S. at 544-46 (1985); *Sony*, 464 U.S. at 421, 425, 451 (1984); *Teleprompter Corp. v. CBS*, 415 U.S. 394, 413 (1974); *Goldstein v. California*, 412 U.S. 546, 564 (1973); *see also* 17 U.S.C. § 107(4). The Ninth Circuit correctly applied the same test here.

C. The Copyright Act Enables a Right Holder to Bring an Action Against a Distributor of Unauthorized Imports.

It is important to note that the protection afforded by section 602(a) with respect to gray market goods is quite limited. While Congress gave the Customs Service the power to prevent entry to pirated copies, it did not grant it the same authority for non-piratical goods. *See* 17 U.S.C. § 602(b); 19 C.F.R. 133.42(b). Instead, the copyright owner must undergo the more cumbersome and expensive process of seeking to stop unauthorized importation on a case-by-case basis by means of a civil suit under section 602(a).[17]

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[17] Petitioner suggests that L'anza and other combatants of the gray market are trying to accomplish through copyright law what they have not been able to accomplish through application of trademark law, citing this Court's decision in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). *See* Pet. Br. at 7-9. The *K Mart* case involved section 526 of the Tariff Act of 1930, which allows any U.S. entity to record its U.S. trademark with the Customs Service in order to prevent unauthorized importation of goods bearing that trademark, including genuine goods. *See* 19 U.S.C. § 1526(a). The protection provided by section 526, however, is only available to U.S. entities and only against "merchandise of foreign manufacture." *Id.* The Customs Service has interpreted this requirement (continued...)

Amici Costco Companies *et al.* argue that this protection is even further limited because suit may only be brought against the actual importer and not the distributors who are selling the unauthorized imports. *See* Costco Br. at 21-26. This argument is supported neither by the language of section 602(a) nor by copyright practice generally.

Although section 602(a) refers to unauthorized "importation," the harm at which it is expressly directed is "an infringement of the exclusive right to *distribute* copies." 17 U.S.C. § 602(a) (emphasis added). Thus, the statute contains various exceptions for importation that will not lead to distribution. Subsection (a)(2), for example, exempts from liability "importation, for the private use of the importer *and not for distribution*" of single copies of copyrighted works; and subsection (a)(3) exempts from liability importation by eleemosynary organizations for various specified uses "unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or *distribution*." Moreover, a copyright owner simultaneously can bring suit under section 106(3) for infringement of its domestic distribution rights in addition to asserting a violation of section 602(a) importation rights.

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[17](...continued)
to mean that it need not prevent entry of gray market goods when the U.S. and foreign trademark holder are the same person or are subject to common ownership or control. *See* 19 C.F.R. 133.21(c). In *K Mart*, a divided Court upheld Customs' regulation as a reasonable interpretation of ambiguous statutory language. *See* 486 U.S. at 293 (opinion of Kennedy, J.); *id.* at 309-12 (opinion of Brennan, J.)

The Customs regulation at issue in the *K Mart* case has no bearing on the question presented in this case. First, the Customs Service has no responsibility or authority over section 602(a) cases. Second, and more important, the purpose, scope, and statutory scheme for trademark and copyright bear no relationship to each other. *See Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n. 19 (1984); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918). Many trademarks are not sufficiently original or creative to meet the copyright standard.

Furthermore, the position urged by Costco is inconsistent with copyright law generally. "Courts have long held that in patent, trademark, literary property, and copyright infringement cases, any member of the distribution chain can be sued as an alleged joint tortfeasor." *See Stabilisierungsfonds Fur Wein v. Kaiser Stuhl Wine Distribs. Pty. Ltd.*, 647 F.2d 200, 207 (D.C. Cir. 1981) (Ginsburg, J.) (citing cases). The copyright owner "may sue as many or as few of the alleged wrongdoers as he chooses; those left out of the lawsuit, commentary underscores, are not indispensable parties." *Id.*; *see also Costello Publishing Co. v. Rotelle*, 670 F.2d 1035, 1043 (D.C. Cir. 1981); *see generally* 2 P. Goldstein, COPYRIGHT § 13.6.1 (1996).

In copyright cases generally, distributors of infringing goods, even innocent ones, are liable for infringement regardless of lack of intent. *See, e.g., D.C. Comics, Inc. v. Mini Gift Shop*, 912 F.2d 29, 35 (2d Cir. 1990); *Costello Publishing*, 670 F.2d at 1044 n.13; *American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978). While intent is not an element of copyright infringement, it can be relevant in the consideration of appropriate remedies. *Costello Publishing*, 670 F.2d at 1044 n. 13; *Ford Motor Co. v. B&H Supply, Inc.*, 646 F.Supp. 975, 989 (D.Minn. 1986). A court confronted with a *bona fide* "innocent" infringer who "was not aware and had no reason to believe that his or her acts constituted an infringement" may reduce an award of statutory damages accordingly. *See* 17 U.S.C. § 504.

Whether or not the Ninth Circuit was correct that Quality King is an "importer" of gray market L'anza products,[18] its decision holding Quality King liable under section 602(a) is consistent with these general copyright principle of joint and several liability, regardless of intent. The decision is also consistent with others allowing section 602(a) suits to proceed against a distributor. *See Drug Emporium*, 38 F.3d at 481; *Scorpio*, 569 F.Supp. at 48-49.

On the other hand, there is nothing in the case law, the statutory language, or the legislative history to support Costco's

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[18] Review of this factual issue is not part of the question presented.

theory that the "good-faith purchaser for value" provisions of the Uniform Commercial Code (U.C.C.) should apply. Because intent is not an element of infringement, *see supra*, "there is no such thing as a bona fide purchaser for value in copyright law." *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F.Supp. 1310, 1331 (N.D. Ill. 1990); *see also Microsoft Corp. v. Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208,211 (E.D.N.Y. 1994). There is no reason that this U.C.C. provision, which is otherwise not applicable to copyright, springs to life in section 602(a) and exempts a distributor from joint and several liability for its sale of goods imported without the copyright owner's authorization.

Finally, in a substantial number of cases, the position urged by Costco would leave a right holder without any remedy at all against unauthorized imports. Because the Customs Service exerts no control over non-piratical imports, a copyright owner most likely will not learn that copies of the work have been imported without authorization until they appear on the distributor's shelves. Even assuming that the copyright owner could engage in discovery against the distributor to try to determine who imported the works, this can prove a futile inquiry due to the gray market practice of using shell companies and obliterating product codes used to trace products. *See Disenos Artisticos e Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 379 (9th Cir. 1996); *Johnson & Johnson Prods. v. DAL Int'l Trading*, 798 F.2d 100, 103 (3d Cir. 1986); *John Paul Mitchell Sys.*, 862 F.Supp. at 1025. Far from protecting *bona fide* purchasers in good faith, the limited reading of the Copyright Act urged by Costco would encourage willful blindness in determining whether a good has been imported without a copyright owner's authorization. A retailer unsure of a copyrighted work's provenance is entitled to seek indemnification from its suppliers, *see* U.C.C. § 2-312(3),[19] but not an exemption from the plain language of the statute.

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[19] This section provides; "Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like . . ."

CONCLUSION

For the foregoing reasons, and the reasons set forth in the brief for respondent, this Court should affirm the decision below.

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IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States
Court of Appeals for the Ninth Circuit

BRIEF OF AMICUS CURIAE SWAROVSKI AMERICA LIMITED IN SUPPORT OF RESPONDENT

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INTEREST OF AMICUS CURIAE[1]

Swarovski America Limited ("SAL") is a member of the Swarovski family of companies that are world-renowned for the full lead crystal figurines, jewelry, jewelry stones, and other decorative objects that they design, manufacture and sell. SAL markets the Swarovski companies' high quality copyrighted crystal figurines and decorative objects, which SAL sells in the United States under trademarks including SWAROVSKI SILVER CRYSTAL, SWAROVSKI COLLECTORS SOCIETY, and CRYSTAL MEMORIES. Through agreements with a European affiliate, SAL has an exclusive U.S. license to distribute and otherwise exploit rights in the crystal works that SAL sells.

As a copyright owner in crystal figurines and objects, SAL's interests in this case are two-fold. *First*, SAL's exclusive rights to distribute and otherwise exploit the copyrights in Swarovski's highly artistic works in the United States have already been impaired by the influx of gray market copies of its copyrighted works.[2] The appeal of Swarovski's crystal works, which SAL sells through a network of authorized, upscale retail dealers, depends in integral and essential part on the manner in which they are handled, displayed and marketed as premium products -- activities that are carefully prescribed and monitored by SAL. That appeal is significantly undermined by gray market sales of Swarovski's works through unauthorized channels such as discount establishments. A broad ruling that the first sale doctrine applies to Petitioner's gray market sales may be

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[1] The parties' written consents to the filing of this brief are simultaneously being submitted to the Clerk of the Court. Counsel for *amicus curiae* Swarovski America Limited authored this brief, and no entity other than Swarovski America Limited contributed financially to its drafting or submission.

[2] "Gray market goods" refers to goods "intended to be sold outside the United States but which are imported into this country without the consent of the owner of the United States trademark or copyright associated with the good." *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1382 n.1. (C.D. Cal. 1993).

interpreted to extend to gray market sales of SAL's works, as well. If so, that would open the floodgates for gray market imports, thereby dissuading SAL's authorized retailers from carrying SAL's figurines, and Swarovski from creating these artistic works in the first place.

Second, SAL is party to several consent judgments and settlements against gray market importers and distributors. These include a recent consent judgment against the operator of a major discount chain, Price/Costco, Inc., a successor to which joined in an amicus brief submitted in Petitioner's favor. That judgment enjoins Price/Costco from distributing any unauthorized imports of copyrighted SWAROVSKI SILVER CRYSTAL figurines except under very limited circumstances. The continued viability of this injunction will likely turn on the Court's resolution of the perceived tension between the import prohibition in Section 602(a) of the Copyright Act of 1976 (the "Copyright Act"), 17 U.S.C. § 602(a) (1997), and the first sale doctrine, 17 U.S.C. § 109(a) (1997). More generally, the viability of SAL's entire marketing efforts -- and those of other U.S. distributors in the collectibles field, whose products are often sold on the gray market -- may well turn on the Court's decision.

As an exclusive U.S. distributor of copyrighted works, SAL's particular interests in this suit are not represented by Respondent or by any of the other *amici curiae* filing briefs in support of Respondent. None of these other briefs were submitted by, or cover certain issues specific to, an individual U.S. distributor of copyrighted goods manufactured abroad that are sold on the gray market.

SUMMARY OF ARGUMENT

Under the Copyright Act, copyright owners enjoy not only the right to control the initial distribution of their works in the United States but also, through Section 602(a), the ability to prevent unauthorized importation of those works. As SAL has witnessed firsthand, the protection afforded by Section 602(a) is vital to preserving the goodwill and high quality reputation in its copyrighted works and to encouraging the creation of future works -- a fundamental goal of the copyright laws. Applying the first sale doctrine beyond its intended reach to limit Section 602(a) would contravene this goal and deny copyright owners the protection they need to prevent tarnishment and devaluation of their works.

These general principles are supported by a host of arguments, many of which will be articulated by Respondent and other *amici*. SAL submits this brief to emphasize a few specific, discrete points as follows:[3]

1. Application of the first sale doctrine to foreign sales would render Section 602(a) virtually meaningless because most gray market imports have already been the subject of a first sale abroad. Moreover, there are already explicit exceptions to the importation ban built into Section 602(a), and applying the first sale doctrine would render these exceptions superfluous.

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[3] Although the specific question presented in *Quality King* is rather narrow, both Petitioner and supporting *amici* have taken the occasion to urge a more general application of the first sale doctrine in Section 109(a) to the importation ban in Section 602(a). SAL thus feels a need to respond to this more general proposition.

2. Liability for the sale of unauthorized imports must attach to retailers and other distributors as well as importers, and the first sale defense should not be available to either. Any contrary result would completely strip copyright owners of their exclusive right to control the initial distribution of their copyrighted products in the United States. Moreover, retailers' claims that they would suffer unduly if not afforded the opportunity to shield their gray market sales behind the first sale doctrine are greatly exaggerated. Such retailers and other distributors may employ contractual measures and other basic means to guard against liability for selling gray market imports. Certainly, in other contexts the law has imposed liability on remote purchasers of goods and services, and it makes sense to do so in the context of Section 602(a) as well.

3. Curbing any perceived "copyright misuse" in which owners of copyrighted labels engage is no justification for a sweeping decision that the first sale doctrine limits Section 602(a). Such a decision may adversely affect not only copyrights in labels, but also copyrights in intrinsic works that embody a high degree of creativity, such as SAL's crystal figurines. SAL's concerns are emblematic of a much greater problem: A ruling that the first sale defense is available to gray market importers and distributors would impact on the many businesses whose livelihood depends on having the exclusive rights to distribute their copyrighted goods in the United States.

ARGUMENT

I. APPLICATION OF THE FIRST SALE DOCTRINE WOULD RENDER SECTION 602(a) VIRTUALLY MEANINGLESS

The Ninth Circuit Court of Appeals correctly found that Section 602(a) "would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation." *L'Anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1114 (9th Cir. 1996). As other courts have observed, were the first sale defense available to importers, they could easily circumvent the Section 602(a) importation ban by buying copyrighted goods indirectly, rather than from the copyright owner. *See Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1387 (C.D. Cal. 1993); *Columbia Broad. Sys. v. Scorpio Music Distribs.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd*, 738 F.2d 421 (3d Cir. 1984). Indeed, the case law is rife with examples in which importers did just that. *See, e.g., C & C Beauty Sales*, 832 F. Supp. at 1381-82 (defendant imported, as well as purchased from other gray market importers, perfume with copyrighted box design without copyright owner's consent); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 972-73 (N.D. Cal. 1986) (defendants imported copyrighted books without copyright owners' consent).

In fact, were the first sale doctrine to apply, most gray marketers would automatically be shielded from Section 602(a) liability, for virtually all gray market imports have *already* been the subject of a first sale by the time they find their way into the United States. As the Fifth Circuit Court of Appeals observed in rejecting application of the first sale doctrine of trademark law to gray market goods:

> [A]pplying the first sale rule to an unauthorized importer such as [defendant] would mean that the gray-market importer would always escape liability. Unauthorized importers are never the first seller. They always purchase the goods from the manufacturer . . . or an intermediary, and resell the goods in violation of an agreement the manufacturer has with the exclusive distributor . . . .

Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co., 112 F.3d 1296, 1303 (5th Cir. 1997).[4] The first sale doctrine would thus eliminate a broad class of importers from Section 602(a) liability, rendering the provision virtually meaningless.

Petitioner has argued that, even were the first sale doctrine available, Section 602(a) would still have "meaning" because it would allow a copyright owner to prevent the

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[4] While *Herend's* observation about the purchasing practices of gray market importers is a key insight, the trademark law principles *Herend* espouses are irrelevant here. The *Herend* court found the defendant liable because its gray market goods were materially different from the plaintiff's trademarked goods. *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1303 (5th Cir. 1997). The emphasis on "material differences" between authorized and gray market goods that underlies the trademark cases is in keeping with the primary goal of the trademark laws, that is, to prevent consumer confusion as to source and quality of products. *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 638-40 (1st Cir. 1992). The "material differences" test has no bearing in copyright cases, since the goals of the copyright laws are quite different from preventing public confusion as to product source. *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 483 (9th Cir. 1994) ("the Copyright Act has a purpose, scope, and statutory scheme different from either the Tariff or Lanham Trademark Acts"), *cert. denied*, 514 U.S. 1004 (1995).

importation of some copyrighted works. (Pet'r Br. at 10.) The provision, Petitioner reasons, would still apply to items such as stolen or piratical copies a defendant tries to import, or to copies imported by a licensee lacking title to the goods without the copyright owner's authorization. (Pet'r Br. at 26-27.) But these are artificial distinctions at best. There is no support in either the legislative history or the case law governing Section 602(a) to apply the importation bar to piratical, stolen and certain licensed works, but not to gray market imports that the importers have purchased abroad for resale in the United States.

Application of the first sale doctrine to Section 602(a) would also render superfluous the explicit exceptions contained in that section. Subsections 602(a)(1), (2) and (3) detail three specific exceptions to the ban on unauthorized imports. These provisions sanction imports for some governmental uses; imports for some private uses of "no more than one copy" and importation of copies in the "personal baggage" of "any person arriving from outside the United States"; and imports for some scholarly, educational or religious purposes. Each of these exceptions could involve, and indeed likely *would* involve, a first sale outside the United States. For example, the "importation" of copies in personal baggage by someone travelling to the United States may occur when tourists buy gifts for others or items for themselves to bring home, or foreign visitors buy gifts to distribute in the United States. If the first sale defense would negate infringement under Section 602(a), these exceptions would have no meaning and would be "superfluous." *C & C Beauty Sales*, 832 F. Supp. at 1388. *See also* Paul Goldstein, *Copyright* § 5.6.1.2, at 115-16 (2d ed. 1997).

Congress included three specific exceptions; the Court should not make the first sale doctrine a fourth. *See Andrus v. Glover Const. Co.*, 446 U.S. 608, 616-17 (1980); *Cash Currency*

Exchange, Inc. v. Shine (In re Cash Currency Exchange, Inc.), 762 F.2d 542, 552 (7th Cir.) (citing general rule of statutory construction that "the enumeration of specific exclusions from the operation of a statute is an indication that the statute should apply to all cases not specifically excluded"), *cert. denied, sub. nom. Fryzel v. Cash Currency, Inc.*, 474 U.S. 904 (1985). Section 602(a) should be interpreted as the House Report on the Copyright Act explains: "If none of the three exemptions applies, any unauthorized importer of copies or phonorecords acquired abroad" can be sued. *See* H.R. Rep. No. 94-1476 at 170 (1976); *see also T.B. Harms Co. v. JEM Records, Inc.*, 655 F. Supp 1575, 1578 (D.N.J. 1987).

II. AFFIRMANCE WOULD NOT PLACE AN UNFAIR OR IMPROPER BURDEN ON RETAILERS AND OTHER DISTRIBUTORS

Amici supporting Petitioner argue that, without resort to a first sale defense, retailers and other distributors would effectively be foreclosed from purchasing genuine goods from middlemen for resale out of concern that those goods were unauthorized imports. They contend that the language of Section 602(a) applies only to importers and not to distributors, and that distributors should not have to bear the burden of tracing the goods back to their source to discern whether or not their initial importation was authorized.[5] In truth, however, many retailers and other distributors have continued to purchase imports from middlemen, even in the wake of lower court rulings rejecting application of the first sale doctrine. *Cf. Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 379

[5] Brief of *Amicus Curiae* Jan-Bell Marketing, Inc. in Support of Petitioner, at 2, 10-12; Brief of *Amicus Curiae* Costco Companies, Inc. et al., at 21-26.

(9th Cir. 1996) (noting that Costco purchased foreign-made goods from "alternative sources within the United States").

Moreover, as explained below, there are compelling reasons, supported by fundamental principles of copyright law, for subjecting distributors to liability for selling unauthorized imports. And imposing such liability is not unfair, for distributors may avail themselves of several common sense measures to alleviate the "risks" that may attach to their distribution of imported merchandise.

A. Distributors Should Not Escape Liability for Disseminating Unauthorized Imports

The Ninth Circuit has held distributors liable under Section 602(a). *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 (9th Cir. 1994) (affirming injunction against national retail chain that purchased gray market goods from unauthorized importers), *cert. denied*, 514 U.S. 1004 (1995). The Ninth Circuit's approach should be reaffirmed in this case, for it is the only logical means to preserving a copyright owner's exclusive right to control the U.S. distribution of its copyrighted products as provided in Section 106(3).[6]

As other *amici* note, distributors must be subject to Section 602(a), because the statutory language of that section is aimed at prohibiting importation that would lead to an infringement of a copyright owner's distribution rights. Subjecting distributors to liability is also consistent with the general principle that everyone in the chain of distribution may

[6] That section affords the owner of copyright the exclusive right "to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending . . . ." 17 U.S.C. § 106(3) (1997).

be liable for infringement of a rightsholder's copyrights, trademarks, or other proprietary rights.

Beyond these arguments, there is another compelling reason for subjecting distributors to the importation ban imposed by Section 602(a). The Copyright Act explicitly grants to copyright owners the right to control the initial distribution of their works in the United States. *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 555 (1985) (The Copyright Act, which affords the copyright owner the right to control the initial public distribution of its work, "echoes the common law's concern that the author or copyright owner retain control throughout this critical stage."). Retailers and other distributors should not be permitted to invoke the first sale defense when the owner of the exclusive U.S. distribution right in the copyrighted goods has not yet exhausted that right. *See Drug Emporium, Inc.*, 38 F.3d at 482.

The facts in *Drug Emporium* illustrate this principle perfectly. There, a French manufacturer marketed its perfume in "distinctively decorated individual boxes" designed by its employees. *Id.* at 479. The manufacturer assigned the exclusive right to distribute perfume in its copyrighted boxes to plaintiff, a U.S. distributor ("Givenchy USA"). Third parties then imported the perfume without the French manufacturer's or Givenchy USA's authorization and sold it to Drug Emporium, a national retail discount chain, for distribution. Drug Emporium argued that it should not face liability for selling the goods under Section 602(a) because it was a retailer rather than an importer. In rejecting this argument, the Court of Appeals stated:

> This is not a material distinction because the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer. *See* H.R.Rep. No. 1476, at 79, reprinted in 1976 U.S.C.C.A.N. 5659, 5693 ("any resale of an illegally pirated phonorecord would be an infringement"). *Drug Emporium therefore had no more authority to distribute the copyrighted Amarige box design than did the original importer. Nothing had happened to divest Givenchy USA of its 'exclusive rights.'* 17 U.S.C. § 106 ("the owner of copyright . . . has the exclusive rights" to authorize distribution of copies).

Id. (Emphasis supplied.)[7]

SAL's situation also illustrates the danger in allowing retailers to escape liability. Like Givenchy USA, SAL owns the exclusive rights to distribute certain copyrighted works in the United States.[8] The manufacturers of these works also sell many of them abroad for foreign distribution, and some of these pieces make their way into the United States on the gray market. Were the first sale doctrine to shield retailers' distribution of these

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[7] *Cf. Hearst Corp. v. Stark*, 639 F. Supp. 970, 978 (N.D. Cal. 1986) (Defendants' importations of books without authority of owner of exclusive distribution rights violated Section 602(a) and were not protected by first sale; "Defendants unauthorized importations have an undermining effect on the copyright owners' control over the public dissemination of the copyrighted works.").

[8] SAL is thus the copyright owner of the U.S. distribution rights in those works. *See* 17 U.S.C. § 101 (1997) (an exclusive license of "any of the exclusive rights comprised in a copyright" constitutes a "transfer of copyright ownership"); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 21 n.2 (S.D. Fla. 1985).

imports, SAL would lose its exclusive rights to control first distribution of the copyrighted goods in the United States.[9]

As *Drug Emporium* and *amicus'* own situation make clear, the first sale defense should not be available to shield the subsequent distribution of unauthorized imports, for that defense would effectively nullify a foreign manufacturer's ability to grant exclusive U.S. distribution rights for its copyrighted works.

A contrary rule -- one that discriminates between importers and retailers, and absolves the latter of liability under Section 602(a) -- would simply reward the wholesalers, discount warehouses, and the like that deliberately purchase gray market goods intended for sale abroad for resale in the United States in defiance of a copyright owner's marketing plans. These distributors are not merely "little gift shop" owners as *amicus* Jan-Bell Marketing would imply.[10] Instead, they encompass large, sophisticated discount outfits whose business includes acquiring gray market products for resale in the United States. In many cases, such outfits may well be aware that the goods they purchase are not authorized for sale in the United States or, indeed, may even have engineered the importation of those goods into the United States.[11]

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[9] In any event, the first sale defense should not be available to unauthorized distributors of SAL's goods because those goods are manufactured and sold abroad, rather than domestically. *See BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992).

[10] *See* Jan-Bell Br. at 12, quoting *Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996).

[11] Such distributors could also be liable as contributory infringers.

Moreover, imposing liability on a distributor several steps removed from the manufacturing source is not a novel, untested concept. As *amici* observe, such liability is already commonly imposed in other areas of copyright law. Additionally, in the product liability context, for example, retailers and distributors are often strictly liable for injuries resulting from defective products that are unreasonably dangerous to users, even though they were not responsible for the manufacture of those products. *See* Restatement (Second) of Torts § 402A (1965); *Oser v. Wal-Mart Stores, Inc.*, 951 F. Supp. 115, 119 (S.D. Tex. 1996) (Under Section 402A of the Restatement (Second) of Torts (1965), "retailers and manufacturers are jointly and severally liable for injuries caused by defective products.").[12]

B. Retailers May Avail Themselves of Common Sense Measures to Reduce the Risk of Liability

To the extent that merchants may not know whether products that they buy are authorized imports, there are at least two ways to resolve this seeming dilemma. First, a merchant may ask its suppliers for a representation, warranty and

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[12] *Amici* also contend that the "good faith purchaser for value" rule, codified in the Uniform Commercial Code ("U.C.C."), should shield downstream merchandisers from liability under Section 602(a). Jan-Bell Br. at 10-11; Costco et al. Br. at 21-26. But the section of the U.C.C. upon which one *amicus* specifically relies, Section 2-403, relates only to the passage of title in goods, not to liability for their infringing nature. Moreover, nothing in the case law, the Copyright Act or its legislative history bolsters the notion that this state contract law provision, alien to federal copyright law and policy, should guide the Court's interpretation of Section 602(a).

indemnity as to the source of the goods.[13] Analogous practices are customary in other areas of potential liability. For example, a company using a trademark, copyright or patent under license often asks the licensor for a representation and warranty as to the validity and enforceability of these intellectual property rights, and for an indemnity against infringement claims. In addition, retailers subject to strict liability for selling defective products may seek an indemnification from their suppliers.[14]

Second, a merchant, on some occasions, can determine from an examination of the goods themselves whether or not they were imported without the copyright owner's authorization. Copyrighted goods intended for sale outside of the United States often include different markings than their counterpart gray market items. If such markings are not readily apparent, a merchant may ask the manufacturer directly whether the goods are authorized imports. Alternatively, the merchant may ask the manufacturer to describe how to distinguish authorized goods from unauthorized imports, which may be as simple as adding a

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[13] In fact, at least one merchant did so in a reported decision addressing Section 602(a). *Columbia Broad. Sys. v. Scorpio Music Distribs.*, 569 F. Supp. 47, 49 n.6 (E.D. Pa. 1983) ("[Defendant] Scorpio had the foresight to secure a written indemnity agreement from International Traders. . . 'to pay all legal fees if [sic] in the event any legal actions are brought with regard to distribution of these records.'"), *aff'd*, 738 F.2d 421 (3d Cir. 1984).

[14] *See Oser v. Wal-Mart Stores, Inc.*, 951 F. Supp. 115, 119 (S.D. Tex. 1996) ("If [retailer] Wal-Mart was in fact an innocent victim of the manufacturer's sale of defective bags, then Wal-Mart would have a right to indemnity from the manufacturer.").

particular label to its packaging.[15] This is not merely a theoretical solution. SAL itself has provided such information on its authorized imports to distributors who have asked for it. In addition, SAL adopted a marking system for its authorized imports that was fully described in the Price/Costco consent judgment, which is publicly available.[16]

III. A BROAD REVERSAL BY THE COURT COULD HAVE DEVASTATING EFFECTS ON COPYRIGHTS IN INTRINSIC WORKS, NOT MERELY LABELS

Petitioner and its supporting *amici* seize on the fact that the copyrighted works at issue in *Quality King* are labels for hair care products. They argue that simply placing a copyrighted label on a "non-copyrighted", "non-creative" product allows a manufacturer to extend its copyright monopoly unlawfully to manipulate prices and amounts to copyright "misuse." (Pet'r Br. at 12, 33; Brief of AFTA as *Amicus Curiae* in Support of Petitioner, at 3, 24-25). They contend that a product label exhibits little creativity, deserves little protection, and should not form the basis for prohibiting gray market imports sold at a lower price that bear the same label.

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[15] *Amicus* Jan-Bell complains that copyright owners sometimes mark their goods with "secret codes" (Jan-Bell Br. at 11). Any manufacturer who wished to prevent gray market sales of its goods, however, would obviously benefit from marking its authorized imports in a readily discernible way. Otherwise, retailers who have no intention of selling unauthorized imports may inadvertently do so.

[16] Stipulation, Order and Final Judgment in *Swarovski America Ltd. v. Costco Wholesale Corp.*, Case No. CV 93-6365 SVW (SHx) (Dec. 21, 1994) and *Swarovski America Ltd. v. Price/Costco Inc. and The Price Co.*, Case No. CV 93-7403 SVW (SHx) (Dec. 21, 1994), ¶ 5.

In SAL's view, the fact that L'Anza's copyrighted works are labels should not affect the application of Section 602(a), or provide any vehicle for overturning the Ninth Circuit's decision below. Since those labels exhibit the requisite creativity for copyright protection, their unauthorized importation should be subject to Section 602(a) for the reasons set out herein and in the other briefs supporting Respondent.

The Court should be mindful, however, that its decision may also reach copyrights in intrinsic works of authorship such as paintings, books and sculptures. Were the Court to decide that the first sale doctrine *does* limit the ban on unauthorized imports, this decision would affect a wide array of copyrights subsisting in these intrinsic works, which merit a much higher degree of protection than labels. *See Wildlife Express Corp. v. Carol Wright Sales, Inc.*, 18 F.3d 502, 507-08 (7th Cir. 1994). Such a decision would open the floodgates for gray market importers, whose handling, marketing and sales practices would tarnish the copyrighted products, deprive consumers of valuable services provided by the manufacturer and its authorized representatives, and dampen the copyright owners' incentive to create and distribute these works.

SAL's situation is a prime illustration. SAL's copyrighted works are highly original decorative objects such as crystal animal and floral figurines. These works are designed by a small, select group of artisans at Swarovski's "Design Centre" in Austria and are manufactured by SAL's European affiliates based on a century-old tradition of skilled craftsmanship. SAL maintains a carefully circumscribed network of 3,000 authorized retailers nationwide, whose ranks include high end department stores such as Macy's and Marshall Field in Chicago and upscale jewelers such as Bailey Banks & Biddle, as well as many small, select independent jewelry and gift stores. These retailers operate

under specific written standards set by SAL for maintenance, marketing and distribution of SAL's works. They must display the works in a separate mirrored floor display provided by SAL that shows the works to best advantage. They are trained to provide valuable information to customers on issues such as the origin of the works, the handling of the works to prevent breakage and the display of the works to maximize their brilliance. SAL representatives regularly monitor the retailers' activities through visits to their stores to ensure adherence to these standards.

The influx of gray market goods has already adversely affected these carefully constructed marketing plans, despite SAL's continued efforts to police the gray market. The gray market copies crowded on the shelves of discount stores and warehouse clubs devalues these works and their special appeal to customers. Customers buying pieces from such chain stores expect, but do not receive, the information on handling of their purchases and other valuable services that SAL's authorized representatives have to offer. And authorized retailers lose sales to the chain stores who sell the pieces at a substantial markdown, and who "free ride" on the authorized retailers' careful efforts to display and market the Swarovski pieces in a carefully prescribed manner.[17]

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[17] Gray market sales also undermine SAL's efforts to offer an opportunity for its customers to obtain limited edition works. A decade ago, SAL established the Swarovski Collectors Society, which is now at least 100,000 U.S. members strong. Technically, only members of the Society may purchase SAL's limited series "Annual Editions" figurines. Recently, however, gray marketers have begun selling SAL's "Annual Editions" pieces to the general public, without SAL's authorization.

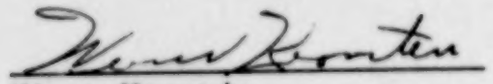
Were the Court to hold that the first sale doctrine shields retailers and other distributors from Section 602(a) liability, these problems may escalate to the point where SAL and other copyright owners find it no longer economically feasible to market their copyrighted products in the United States. This would not be merely a private business problem for a company like SAL, but would raise public concerns, for it would greatly discourage the creation of a whole class of artistic works by Swarovski and others. Although the principal aim of the copyright laws is not rewarding authors but stimulating artistic creation for the public good, *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975), the two go hand-in-hand: a law that prevents authors from reaping any rewards from their works will discourage further creation of those works for the public's benefit. Surely, this is not a result that the copyright laws are designed to encourage.

The potential impact on SAL is only emblematic of a much larger problem. A ruling that the first sale defense is available to unauthorized importers and distributors of gray market goods would have far-reaching effects on the multitude of businesses whose livelihood depends on having the exclusive rights to exploit their copyrighted goods in the United States. In many industries, as in the collectibles industry, copyrights are frequently allocated on a territorial basis. When copyrighted goods are created overseas, the copyright owners often grant the exclusive U.S. distribution rights to a single company that possesses the know-how, expertise, and creative judgment to select goods suitable for the U.S. market and to market them to the American public. This happens in the publishing industry, the record industry, the perfume industry, the crystal industry, and a myriad of others. When the gray marketers enter, however, the U.S. distributor loses its exclusive rights and, consequently, the ability to realize fully the value in its copyright.

CONCLUSION

For the reasons stated above, the decision of Ninth Circuit Court of Appeals should be affirmed.

Respectfully submitted,



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